STERLING
All alone and starting over

Floating values — *How much is a pound worth?* Page 6

UK economic policy — *Which way out of the vacuum?* Page 18

Maastricht — *Time to call the whole thing off?* Page 18

Major and Lamont — *Can they salvage credibility?* Page 19

Tomorrow's Weekend FT — *The witches of Salem are dead – the devil lives*

NEWSPAPER of THE YEAR

FINANCIAL TIMES

Friday September 18 1992 EUROPE'S BUSINESS NEWSPAPER D8523A

Montecatini plans joint venture with Shell Chemicals

Montecatini, chemicals subsidiary of Italy's Montedison, and Shell Chemicals, part of the Anglo-Dutch oil group, announced a plan to merge their activities in polypropylene and polyethylene, both plastics feedstocks.

The joint venture would link Europe's two largest polypropylene makers and is the most far-reaching restructuring of the troubled petrochemicals industry proposed during this recession. Page 21

Opec 'to freeze oil output': The Organisation of Petroleum Exporting Countries agreed to freeze current oil production. Opposition came from Iran which wanted a cut in output in order to raise prices. Page 38; Russians set for doubling in price of oil, Page 8

Mideast peace obstacle: Syria said talks with Israel over the occupied Golan Heights failed to make progress and the peace negotiations in Washington were near deadlock. Israel and Syria jockey for position, Page 7

Gloom among Japanese brokers: Japan's 14 leading securities houses do not expect to make a profit for the first half of 1992-93. Finance minister Tsutomu Hata urged reform by the industry to regain investor confidence. Page 21; Industrial investment to fall in Japan, Page 10

Mauroy to head Socialist International

Former French prime minister Pierre Mauroy (above) became president of the Socialist International in succession to Willy Brandt who held the job for 16 years. Mauroy , 64, was the only candidate for the post, which was decided at a Berlin conference of the organisation. Brandt, 79, a former West German chancellor, is seriously ill and could not attend the meeting.

UK setback for RMC: A 26 per cent rise in German profits in the first half of the year could not offset an even greater fall in British profits for RMC Group, the world's biggest concrete producer. The group announced overall pre-tax profits of £62.1m ($110m), down 11 per cent. Page 21; Lex, Page 20

Crackdown on rightwing suspects: Seven alleged neo-Nazis were arrested after police raided more than 100 homes in the eastern German state of Saxony: Rightwing extremists 'no danger', Page 8

LVMH, French luxury goods group which owns such brands as Louis Vuitton luggage and Hennessy cognac, saw net profits rise by 7 per cent to FFr1.29bn ($239m) from FFr1.21bn in the first half. Page 21

Guinness, international drinks group, could only raise pre-tax profit £3m to £353m because of tough market conditions and higher interest costs. Page 22, Lex, Page 20

Renault Véhicules Industriels, struggling French state-controlled truckmaker, announced worse-than-expected first-half losses of FFr437m ($90.85m) in spite of a reduced deficit at Mack, its US subsidiary. Page 22

Fujitsu, Japan's largest computer maker, said parent company pre-tax earnings would plunge 91 per cent to Y3bn ($24m) in the half-year ending this month because of market weakness. Page 24

Pakistanis flee swollen river: Pakistani villages were evacuated as the river Indus broke through irrigation barrages and embankments. The floods, the worst in living memory, have left 3m homeless.

Bush steps up attack: George Bush's re-election campaign stepped up attacks on Democratic presidential candidate Bill Clinton for having avoided the military draft 23 years ago as polls showed the challenger consolidating his lead. Page 7

Slovak's suicide protest: A Slovak man, Jozef Aszmongyi, 61, burned himself to death in protest over the proposed division of Czechoslovakia into separate Czech and Slovak republics.

STOCK MARKET INDICES

FT-SE 100:	2,483.9	(+105.6)
Yield	4.91	
FT-SE Eurotrack 100	1,058.13	(+4.5)
FT-A All-Share	1,164.98	(+4.4%)
Nikkei	18,116.52	(+171.82)
New York: lunchtime		
Dow Jones Ind Ave	3,322.73	(+3.52)
S&P Composite	420.78	(+0.86)

US LUNCHTIME RATES

Federal Funds:	$3\frac{1}{16}$%
3-mo Treas Bills: Yld	2.931%
Long Bond	$99\frac{1}{32}$
Yield	7.319%

LONDON MONEY

3-mo Interbank	$10\frac{1}{4}$%	($14\frac{1}{2}$%)
Liffe long gilt future:	Sep $97\frac{1}{4}$	(Sep $96\frac{3}{4}$)

NORTH SEA OIL (Argus)

Brent 15-day (Nov)	$20.425	(20.6)

Gold

New York Comex (Sep)	$348.8	(same)
London	$348.25	(349.9)

STERLING

New York lunchtime:		
$	1.7795	
London:		
$	1.781	(1.811)
DM	2.64	(2.75)
FFr	9.035	(9.33)
SFr	2.3	(2.3925)
Y	221.5	(226.25)
£ Index	88.4	(90.5)

DOLLAR

New York lunchtime:		
DM	1.486	
FFr	5.0905	
SFr	1.2945	
Y	124.6	
London:		
DM	1.483	(1.5185)
FFr	5.0725	(5.1525)
SFr	1.2915	(1.321)
Y	124.35	(124.95)
$ Index	61.5	(same)

Tokyo close Y 124.78

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1 250	Hungary	Ft162	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr80	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25	India	Rs20	Neth	Fl 3.50	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00		
Denmark	DKr14	Italy	L2500	Oman	OR1.50	Syria	SyP50.00		
Egypt	E£4 50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50		
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250		
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 18,000	Turkey	L6000		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es180	UAE	Dh10.00		

Speculators find new ERM targets after lira and peseta

By Stephen Fidler in London and Our Foreign Staff

THE French franc, Danish krone and Irish punt yesterday fell to their floors in the European exchange rate mechanism, prompting central bank intervention, as speculators moved on to new targets after pummelling the pound, lira and peseta on Wednesday.

That assault, which forced the British government to suspend sterling from membership of the ERM on Wednesday night, led early yesterday to a temporary withdrawal of the lira from the ERM and a 5 per cent devaluation of the peseta.

The moves were agreed at an emergency meeting of the European Community monetary committee in Brussels. Despite pressure from other European governments at the Brussels meeting, the Bundesbank yesterday declined to deliver a further cut in German interest rates.

The new pressure yesterday within the ERM reinforced the view in financial markets that the system in its current form may have been mortally wounded by this week's speculative onslaught in currency markets.

The Italian government said yesterday it planned to rejoin the ERM on Tuesday although currency traders were sceptical that this would be possible in the event of a No vote on Sunday in the French referendum on the Maastricht treaty.

The British government – while reaffirming its intention to rejoin the system – let it be *known an early re-entry for sterling* was not likely.

Sterling closed 4 per cent lower against the D-Mark yesterday in London, at DM2.64, compared with its pre-suspension DM2.778 floor in the ERM.

After intervention, the French franc, punt and krone finished above their ERM floors against the D-Mark, but the free-floating lira slipped below the new lower limit set only on Sunday.

As the French franc weakened, Mr Michel Sapin, finance minister, attempted to defend the currency by arguing that its value could only go up in the wake of the current chaos.

"The franc belongs to the most solid group of EMS currencies. In the future, its value can only appreciate", he said.

Bond market analysts in Paris argued that the ERM would take years to recover and that monetary union was out of the question for the time being.

"The markets have already voted on Maastricht", said Mr Christopher Potts, market strategist at Banque Indosuez. What was now at stake in the Sunday

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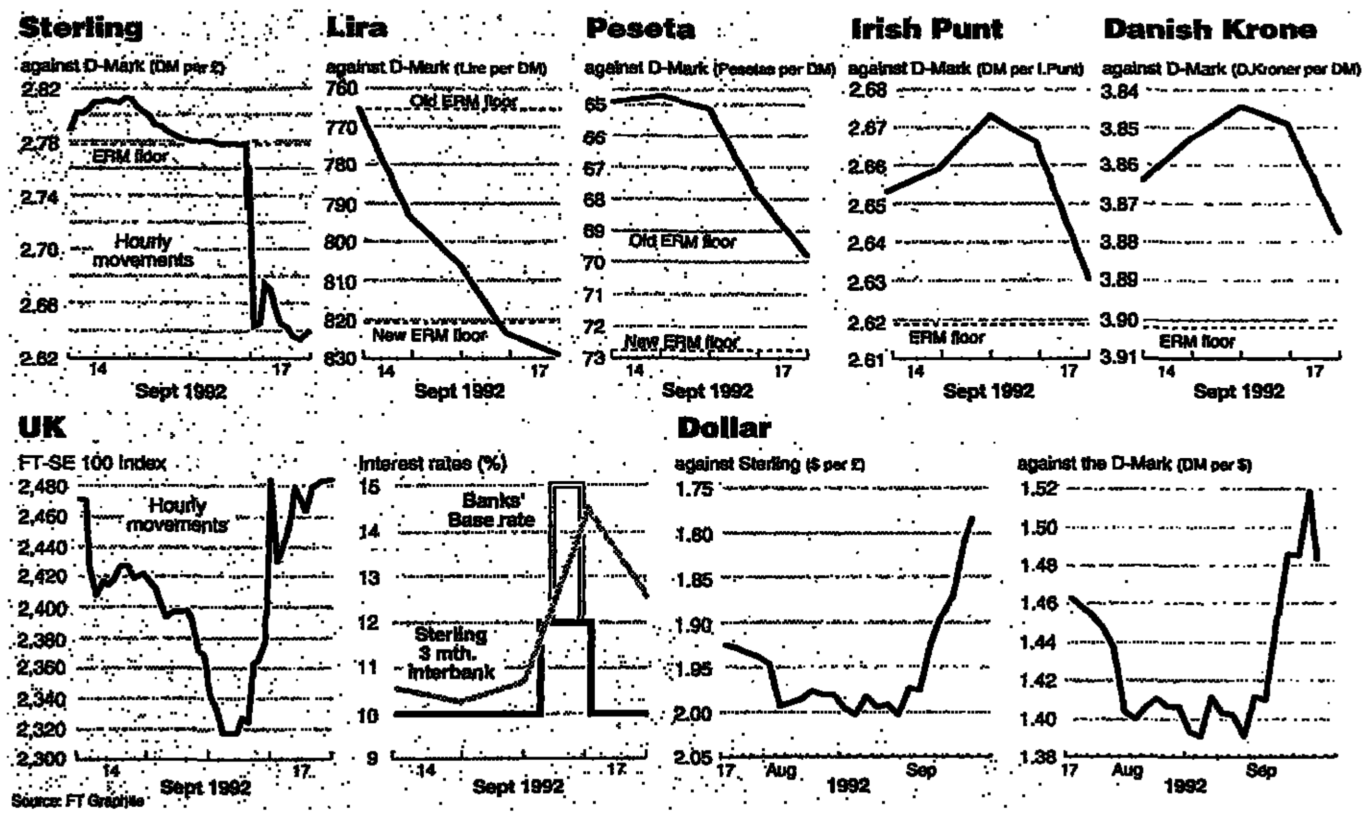

Major attempts to salvage Britain's economic strategy

By Philip Stephens, Political Editor, in London

MR JOHN MAJOR yesterday sought to salvage the UK government's economic strategy from the wreckage of devaluation by insisting that sterling would eventually rejoin the European exchange rate mechanism.

But senior ministers were forced to admit that it might be months before sterling was again tied to the D-Mark. As Mr Norman Lamont, the chancellor, insisted the defeat of inflation would remain at the core of his policy, ministerial colleagues said the government could not now avoid a fundamental reappraisal of its overall economic strategy.

Mr Major also faced the threat of revolt on his Conservative party backbenches over his approach to Europe and economy, with a growing number arguing that he should abandon the ERM entirely in favour of a rapid cut in interest rates to "kick-start" economic recovery.

Mr Lamont, who was given a vote of confidence at an emergency cabinet meeting, flatly rejected suggestions he should resign. He said: "I am not going to resign. I have been operating the policy of the whole government, and I know that I have the support of the prime minister and the full support of my cabinet colleagues."

Mr Lamont, in his first formal TV interview since the crisis erupted, said: "What we faced yesterday – and in the last couple of weeks – has been a wholly exceptional set of circumstances, the like of which haven't been seend for 20 years or more.

"It affected not just this country but Italy, which has also had to leave the exchange rate mechanism, and Spain, which has had to devalue its currency as well.

"What I did yesterday was simple commonsense in the face of a whirlwind."

In another TV interview, Mr Lamont denied there had been a virtual devaluation of the pound.

He told ITN: "We have not resorted to devaluation. The pound is now currently floating and we will have to see what level it finds."

The damage-limitation exercise, however, did not dispel widespread doubts at Westminster over the chancellor's long-term future. Some of his colleagues believe his authority has been fatally undermined.

Cabinet ministers said that the political row over the Bundesbank's role in causing the sterling crisis would delay attempts by the government to ratify the Maastricht treaty if it is approved by the French electorate on Sunday. It is now thought that detailed debate on the legislation will be have to be delayed until after the Edinburgh summit in December.

As the Bank of England reversed the 2-point rise in base rates announced as part of the vain effort on Wedneday, the pound slid more than 13 pfennigs between its previous ERM floor

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THE ERM AND MAASTRICHT

Brussels says single European currency is imperative

By David Gardner in Brussels and David White in London

THE European Commission yesterday mounted a solid defence of the plan for a single European currency, reflecting its growing belief that French endorsement of the Maastricht treaty in Sunday's referendum is vital to the future of European union.

EC officials argued that the European exchange rate mechanism had proved its efficacy but had also shown its limitations. They said this week's events in the currency markets demonstrated the imperative need for a single currency.

The pounding that speculators had given the ERM "shows that if we don't move forwards we are going to go backwards," said Sir Leon Brittan, a Commission vice-president and a former British cabinet minister.

Sir Leon argued that this week's foretaste of the possible consequences of a French No vote could might strengthen the treaty cause. However, Mr Frans Andriessen, the Dutch external relations commissioner, took the opposite view. "This is bad news for Sunday", he said.

Mr Jacques Delors, Commission president and inspirer of the Maastricht plan for economic and monetary union, insisted the European Monetary System was far from being "a miracle cure".

"We cannot ask of it what it cannot provide. It will still provide, but it is only through common disciplines and a single currency that we can avoid the sort of events we have just witnessed," Mr Delors said in Paris.

Mr Delors said currency union would enable the EC to negotiate as an equal with the US and Japan "to guarantee great monetary stability". It would also keep Europe's currencies out of the crossfire between an appreciating D-Mark and sinking dollar.

British officials insisted that the suspension of Britain's membership of the exchange rate mechanism was not regarded by other members as a sign of weakening commitment to the Community, and it would not affect the government's aims for its period in the presidency.

Reed and Elsevier merge to create £5bn publishing group

By Raymond Snoddy in London and Ronald van de Krol in Amsterdam

REED International and Elsevier of the Netherlands have agreed to merge, creating one of the world's biggest publishers with a market capitalisation of more than £5bn ($9bn).

The combined group, to be named Reed Elsevier, will have a total of 25,000 employees, with 11,000 in the UK, 4,500 in the Netherlands and 7,500 in the US.

The merger, due to take effect on January 1, will be on a 50-50 basis without any premium to either set of shareholders, and both Reed and Elsevier will keep their separate stock exchange listings.

Reed, whose interests range from legal publishing and business publications to consumer magazines and local and regional newspapers, will, however, receive a significant minority stake in Elsevier to reflect Reed's higher market capitalisation.

Mr Pierre Vinken, chairman of Elsevier who will also be chairman of the merged company, said Elsevier had over the past decade achieved world leadership in scientific information publishing.

Mr Peter Davis, chairman of Reed who will be chief executive and deputy chairman of Reed Elsevier, commented that for Reed the merger "achieves two of our key strategic aims, a much stronger presence in Europe and in subscription-based information publishing."

Three years ago Elsevier and Pearson, owner of the Financial Times, agreed an exchange of shares with a view towards an eventual merger. However, the stakes were later sold and the companies went their separate ways.

Based on forecasts for the year to the end of 1992, the new group would on a pro forma basis have revenues of £2.442bn or Fl 7.838bn and pre-tax profit of £424m.

Reed's share price rose to 531p, an increase of 45p on the day, because the deal was seen to increase the group's stake in such high margin areas as scientific publishing.

On the Amsterdam Stock Exchange, however, Elsevier's share price fell to a low of Fl 104.7 in the early afternoon from Wednesday's close of Fl 116.7 before recovering slightly to close at Fl 105.2 – a decline of 9.8 per cent on the day.

Dutch analysts were worried that Reed, with its strong presence in business publishing, was more dependent on cyclical advertising than Elsevier.

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NEWS: THE ERM AND MAASTRICHT

Sterling's plight is not our fault, Bonn insists

By Quentin Peel in Bonn

GERMANY reacted yesterday to British charges of complicity in the plight of the pound, more in sorrow – or in silence – than in anger.

A thunderous silence was the reaction of the Bundesbank itself, an ironic answer to the charge from Downing Street that top German officials had precipitated the currency collapse with their loose talk.

Off the record, the charge was politely rejected. On the record, it only said the latest exchange rate realignments in the Exchange Rate Mechanism were "an appropriate answer to the previous tensions".

Mr Theo Waigel, minister of finance, was the most forthright in his response: "To put the blame on Germany is not fair. I do not think that apportioning blame is right. I think everyone should consider what the cause is in their own area of responsibility."

Indeed the instant reaction to the bitterness of British officials, who had spelt out a series of occasions on which the Bundesbank's alleged "whispering campaign" had undermined the pound, was to talk of "the very natural desire of the British government to find a scapegoat".

"The anger of the moment is always understandable," said one well-placed official in Bonn. "But we must distinguish very clearly between immediate irritation and a sober consideration of our long-term relations. Of course we understand that one needs a whipping boy at such a moment, and it is easy to look abroad to find one."

He insisted personal relations between Germany's

> Mr Waigel said: 'I think everyone should consider what the cause is in their own area of responsibility'

Chancellor Helmut Kohl and British prime minister John Major remained "really close", which could never be said of the chancellor's relations with Mr Major's predecessor, Lady Thatcher. And he listed the occasions on which Germany acted as honest broker for Britain in the Maastricht negotiations, helping push through the "opt-out" clause on economic and monetary union, and the similar British exclusion from EC social policy.

In spite of the oil pouring on troubled waters, immediate difficulties remain. There is some doubt over the plans for a bilateral summit on November 11, and who will attend.

Germany's determination not to go ahead with production of the European Fighter Aircraft is a big bone of contention, and has badly soured relations between Mr Volker Rühe, the German defence minister, and Mr Malcolm Rifkind, his British counterpart.

There has also been grumbling about British "high-handedness" in the EC presidency, directed above all at Mr Norman Lamont, the British Chancellor. His obvious delight in the isolation of Germany at the Bath meeting of finance ministers two weeks ago has caused lasting bitterness.

That comes back to the currency questions, which remain the most explosive of all. The German attitude remains that if the Bundesbank and Mr Helmut Schlesinger, its president, were talking down the pound, they were only telling the truth.

Bankers and economists in Frankfurt yesterday closed ranks to defend him. "I cannot imagine that Mr Schlesinger brought about the sterling crisis single-handed," said Mr Peter Pietsch, Commerzbank economist, yesterday. "On Monday they got a lot of approval for what they did in cutting interest rates. How come that has all been forgotten now?"

Kohl and Major: "still close" despite accusations that German officials talked the pound down *Picture: Tony Andrews*

All over Europe, the Don't Knows have it

By Quentin Peel

MORE than 40 per cent of the population in Britain, Germany, Italy and Spain have not the slightest idea whether the Maastricht treaty on European union is a good or bad thing, the latest batch of opinion polls shows. Only in France, where a referendum on the treaty is due on Sunday, is the Don't Know category down to a mere 15 per cent.

That is the conclusion of five co-ordinated polls, published yesterday by Germany's Infas research group, which show that the Yes vote in France is still ahead of the No vote – but only by a marginal three points.

The figures, published from a poll taken on September 6 and 7, are 44 per cent in favour, 41 per cent against, and 15 per cent undecided.

Only in Britain would the No vote in a referendum be higher than the Yes vote – assuming that all the Don't Knows abstain. There were 24 per cent in favour, 31 per cent against, and no less than 45 per cent undecided.

In Germany, where the anti-Europe mood has been steadily growing, there is still a majority in favour, according to Infas: 36 per cent would say Yes, 24 per cent No, and 40 per cent Don't Know.

Italy and Spain are by far the most positive: 45 per cent Yes, 14 per cent No and 41 per cent Don't know in Italy; 40 per cent Yes, 19 per cent No and 41 per cent undecided in Spain.

Pressure grows for Germans to hold their own referendum

By Quentin Peel

A NARROW Yes vote in France, in favour of the Maastricht treaty on European union on Sunday, would strengthen the campaign for a referendum in Germany, according to political analysts.

A No vote would bring the entire ratification process in the German parliament to a standstill, while the whole European Community takes stock of the situation.

Already the campaign for a German referendum, hitherto not a serious possibility, is gathering more substantial supporters.

Mr Peter Gauweiler, Bavarian environment minister and the leading figure in the Bonn coalition's Christian Social Union (CSU) who coined the phrase "Esperanto-money" for the future European currency, yesterday issued a public appeal for such a move.

He was joined by Mr Manfred Brunner, of the coalition's Free Democrats (FDP), the *chef de cabinet* of Mr Manfred Bangemann, senior German commissioner in Brussels. Mr Brunner, whose anti-Maastricht views have been long known, was immediately sacked from his post in the Commission.

There is also growing support among the opposition Social Democrats for a referendum. They are already campaigning for such popular votes to be included in the rewritten German constitution. "The logic of having referendums on major issues in the future suggests that we should push for one now on Maastricht," said a leading SPD member of the Bundestag.

On the other hand, a clear majority of the Christian Democratic Union (CDU) and the CSU remains opposed to any such vote, not least because it fears the issue is too complicated and would become confused with domestic politics – as in France. That majority also fears it might simply become a vote for or against D-Mark abolition – which would bring an overwhelming No.

If the French decision is No, the Social Democrats believe the entire ratification process – due to begin with a first reading in the Bundestag on October 7 – should be abandoned. The CDU is more cautious, suggesting that it should merely be put on ice until the future is clear.

SPD strategists also believe the contents of the Maastricht treaty should simply be set aside, and European integration pursued through "functional integration" issue by issue, rather than through attempts at "institutional integration", as in the treaty.

They admit that such an attitude might put them close to the position of Mr John Major, UK prime minister, but believe that would be the only realistic way to continue the integration process.

Irish punt drops to floor

By Tim Coone in Dublin

THE IRISH government reaffirmed its commitment to the narrow band of the exchange rate mechanism yesterday as the punt dropped to its floor level of DM2.619, triggering intervention by the Irish central bank and the Bundesbank.

Later it recovered to trade at DM2.6275. Mr Bertie Ahern, the finance minister, said: "We have to hold our confidence in the ERM and stay firm. Our position is to remain in the narrow band.

"That's what keeps our economy on course and our stability. There is no immediate concern but we will continue to monitor the situation." The government would "do what is necessary" to keep the punt within the ERM narrow band.

A central bank spokesman confirmed it had been supporting the punt yesterday; the Bundesbank said it had bought I£13.5m.

Ireland broke its long-standing currency link with sterling in 1979 when it joined the ERM. The Irish economy, however, is still dependent on the UK market for 32 per cent of its exports, and many Irish businesses have subsidiaries in the UK.

Some industrial leaders were saying in private yesterday that a continuing decline in sterling might force the Irish government to a devaluation.

At one point yesterday, the pound sterling fell by some 7 per cent to parity with the Irish currency.

Mr Robbie Kelleher, head of research at Davy stockbrokers in Dublin, said: "The fundamentals of the Irish economy are good. If [the sterling devaluation] is a one-off change, and sterling re-enters the ERM, then we can handle parity. Sterling continuing outside the ERM is another matter."

Mr Michael Noonan, finance spokesman for the opposition Fine Gael party, backed the government's stance, saying: "The UK is now the sick man of Europe.

It would be a great mistake, after 13 years of effort to get a strong currency linked to the D-Mark, to abandon that and link ourselves to sterling again." He added that after a general realignment of exchange rates, there would be an easing of interest rates and "we will then emerge with a strong currency and lower interest rates".

The Economic and Social Research Institute (ESRI) in Dublin this week revised up to 3.5 per cent its GNP growth forecast for the Irish economy for 1992, and predicted a surge in the balance-of-payments current-account surplus by 36 per cent to I£2.2bn, largely due to strong performances in manufacturing industry.

Prof Kieran Kennedy, ESRI director, said: "There is a 10 per cent competitiveness cushion in the exchange rate. The economy could endure sterling falling to parity or even to 1.05 against the punt without tremendous pain."

MAASTRICHT: A CHRONOLOGY OF EVENTS

February 7 1992 – Maastricht treaty signed.

June 2 – 50.7 per cent of Danes reject treaty in referendum.

June 3 – Mitterrand announces French national referendum.

June 4 – EC decides to press on with treaty ratification by the end of 1992.

July 16 – Bundesbank raises discount rate to record 8.75 per cent; Lombard rate remains at record 9.75 per cent

July/August – French No vote creeps ahead of Yes vote in opinion polls. Tensions rise in currency markets.

September 8 – Finland cuts markka loose from tracking European currency unit (Ecu), sparking run on Nordic currencies. Sweden raises rates from 24 to 75 per cent.

September 13 – First significant ERM realignment since 1987, with effective 7 per cent devaluation of lira.

September 14 – Bundesbank cuts Lombard rate by 0.25 percentage point and discount rate by 0.5. Fails to stop selling of weaker ERM currencies.

September 16 – Sterling, lira and peseta forced below their ERM floors. Central banks intervene, to no effect. Britain, in unprecedented move, announces two-stage rise in interest rates from 10 to 15 per cent, then suspends sterling from ERM and cuts rates to 12 per cent. Sweden cuts rate to 25 per cent, then lifts it to 500 per cent. EC Monetary Committee meets at midnight.

September 17 – After six-hour meeting Monetary Committee suspends lira temporarily from ERM; peseta devalued by 5 per cent. Britain cuts interest rate to 10 per cent.

Series of surrenders for Amato

The government has survived an unprecedented battering, reports **Robert Graham**

CRISIS has lent a cruel touch to Italy's cartoonists. One of the most acerbic has Prof Giuliano Amato, the prime minister, and his three economic ministers dressed in military uniform with their hands raised, beside a white flag and a burning pile of lire.

For the 2½-month-old Amato government, the events of the past few days have been a continual series of surrenders to the overwhelming pressures on the lira. The latest was the decision yesterday morning to let the lira float at least until Monday. Only 12 hours earlier the Bank of Italy denied any such move was contemplated.

On the surface, no post-war Italian government has ever been so battered and tossed by fast-moving events. Indeed, by the short-lived standards of the previous 50 governments, it is remarkable that such a weak four-party coalition has survived so far.

With a parliament still smarting from his surprise decision the previous Wednesday to seek emergency powers to deal with the economic and financial crisis, Prof Amato was roundly criticised for presenting the weekend 7 per cent devaluation of the lira in overly optimistic terms.

Members of his own Socialist party were sniping at him, and his relations with the Bank of Italy, the one institution which has sought to keep its head above the fray, were strained by arguments over how to defend the lira.

His resolve was certainly stiffened by a meeting with President Oscar Luigi Scalfaro, whose clear support for the prime minister has become an important factor. Mr Scalfaro, in his brief period of office, has established considerable authority which few politicians or parties are likely to challenge lightly.

Equally, the prospect in such turbulent circumstances of a political vacuum, no matter how brief, seems to have concentrated the minds of politicians. Prof Amato has been able to exploit this as a desperate but ultimately powerful card to sustain his government. His departure would profoundly damage Italy's international credibility and confirm market scepticism that the country is incapable of providing stable governments.

Moreover, Prof Amato has said on several occasions that a new government would merely face the same set of problems, and almost certainly have to adopt similar policies. Whatever the outcome of the French referendum on Maastricht on Sunday and short-term developments in the *Exchange Rate Mechanism*, Italy will still face external pressure to tackle its disastrous public finances and reduce the public-sector deficit.

This is set to shoot beyond 11 per cent of GDP next year without tough remedial action. Thus the precise composition of an Italian government becomes irrelevant if policies are being forced upon it from outside, especially by the markets.

But there are practical internal considerations which militate against a change of government now. A new government would first have to look to the narrow 16-seat majority provided by the present coalition of Christian Democrats, Socialists, Social Democrats and Liberals. Alternatively, there would be an attempt to establish new alliances, perhaps across party lines, with a break in the existing structure of both the Socialists and Christian Democrats.

Inevitably, this would be time-consuming and probably accelerate fresh elections – and none of the big parties is in fit shape to go to the country. *They have no money and* are split internally, with the exception of the emergent Lombard League. Their leaderships are discredited in the public's eye both for clinging to power, and as a result of the Milan corruption scandal and the awesome extent of the abuse of power exposed. Now the public is blaming them for blithely ignoring Italy's problems for decades and producing the present mess.

At last the politicians are showing signs they can no longer ignore this huge groundswell of discontent over their incompetence and excessive privileges, treating the state as their personal war chest. This week parliament rescinded plans to award its members an extra L750,000 (£335) a month in allowances and refused the pay rises of as high as L62m a year, backdated to 1991, granted by the Andreotti government to the heads of state companies.

Prof Amato has garnered considerable public support by presenting his as a technocratic government trying to tackle long-ignored problems.

He may not obtain from parliament the emergency powers he wants to take economic decisions without resort to long parliamentary procedures. But he looks set to have parliament's endorsement for fundamental reforms of four areas eating away at the budget – pensions, public health, the civil service and regional administration.

The government faces two immediate issues. The first concerns the 1993 budget and the extent to which efforts to find nearly L100,000bn to hold down the deficit convince the markets – which may be in the mood to feel that nothing is enough. The second centres on the impact of the devaluation and floating of the lira. Its fall to a more realistic level – an effective devaluation of at least 15 per cent against the D-Mark, economists argue – could make up for the inadequacy of Monday's 7 per cent realignment.

But equally, such a fall might have a greater inflationary impact, despite the domestic recession, than the government can control. A central pillar of government policy in holding down prices is a tripartite agreement with the unions and employers. An outline deal reached in July de-indexing wages now looks fragile – especially if the unions judge the government unable either to keep inflation below 5 per cent or to ensure the sacrifices will be borne equally by everyone.

Beyond this, the reactions of ordinary Italians are hard to predict. They have seen the wealthy scramble to get their money out of the country while they themselves are only just beginning to realise the scale of the crisis engulfing Italy. But soon there will be higher taxes, more unemployment and the soft living standards, taken from granted after decades of growth, will be eroded.

GOVERNMENT TO REVISE ITS BUDGET FORECASTS

The Italian government is to submit new budgetary forecasts for 1993-95 in the next seven days, after its original figures were criticised as inadequate in parliament last week, Haig Simonian reports from Milan.

The decision yesterday to revise the forecasts, prepared each July, follows the recent turmoil in the currency markets.

The predictions, which envisage a fall in the budget deficit to just 4.9 per cent of gross domestic product by 1995, had already been attacked by economists as too upbeat.

The figures, drawn up soon after the new government of Prof Giuliano Amato came to office, showed total public sector debt was expected to fall marginally to 113.5 per cent of GDP in 1995 after reaching a peak of 113.6 per cent in 1994.

Even some ministers have admitted the inflation forecasts made in July were optimistic. Price rises, which declined to an annual 5.3 per cent last month, were forecast to drop to 3.5 per cent in 1993, 2.5 per cent in 1994 and 2 per cent in 1995. "That's even more optimistic after the latest devaluations," said one bank economist yesterday.

The economic growth targets of 1.6 per cent next year, 2.4 per cent in 1994 and 2.6 per cent in 1995 are also seen as being on the bright side. Most contentious of all the assumptions was the outlook for interest rates, which underlie all the forecasts.

Franco-German alliance is still Europe's motor

British problems will not kill Maastricht or the ERM, **Ian Davidson** argues

THE European currency crisis inevitably raises a big question mark over the future prospects of the European Monetary System (EMS). When two of the participants are abruptly forced out of the Exchange Rate Mechanism, in a free float which their governments desperately wanted to avoid, and a third is forced to devalue as a by-product, it is obvious that there was something deeply wrong with the way the system was functioning, and quite likely with the system itself.

But to go on to argue, as some commentators have done – that floating sterling automatically spells the end of the ERM, consigns to oblivion all plans for economic and monetary union in Europe, and renders wholly superfluous the French referendum on Sunday on the Maastricht treaty – that seems a leap too far. Above all, it is characteristically and damagingly anglocentric.

Take the Maastricht referendum first. This week's currency storm may well have repercussions on Sunday's vote, but it would take a wise man to predict with any confidence whether these would be more likely to strengthen the Yes or the No tendency.

The anti-Maastricht camp may claim that the crisis shows you cannot believe the British or trust the Germans; but the pro-Maastricht lobby will surely claim that France has been largely protected from the storm precisely because it has stuck close to Germany, with a hard-franc policy whose credibility is based on many years of a consistent Eurocentric economic policy.

How the voters will react to these contradictory arguments must be a matter of pure speculation. The No vote may well be fuelled by the belief that the policy of European economic convergence is responsible for low growth and high unemployment. It is not immediately obvious, however, why French voters should take this latest episode in the long-running bankruptcy of British economic and monetary policy as an additional reason for rejecting the Maastricht treaty.

On the contrary, they might conclude that the Exchange Rate Mechanism is a reassuring port in the storm, and that the case for Emu remains exactly where it was before, as argued in the Delors Report: the opening of a single European market, with free movement of goods and capital, and linked exchange rates, requires much greater economic co-ordination and probably a single monetary policy.

There is just one proviso: the treaty recognises that some European economies might not be in any shape to accept the corresponding disciplines, and makes explicit provision for the possibility of a two-speed monetary union. This week's currency crisis has just proved the hypothesis in spades. But Germany, France and the Benelux countries may well be able to sustain the central core of the ERM, and there is nothing in the sterling crisis this week to prove that they could not take a new step forward towards monetary union later this decade.

MOST extraordinary among the aspects of the British government's performance this week was its attempt on Wednesday night to have the entire ERM system suspended until after the French referendum. The most probable consequence of a temporary suspension of the ERM is that it would prove permanent, and there would be no ERM to return to.

The more fundamental point is that Maastricht is an essentially political treaty, the culmination of a shared strategy of European integration, developed by the founding members of the Community over the past 40 years. The motor of that strategy is the political alliance of France and Germany, which has consistently led the way for the development of the Community, buttressed by their association with Italy and the Benelux countries.

It is hard to predict in detail just how these core countries will attempt a rescue if the French electorate turns against the treaty on Sunday; it is difficult to see how the Community will keep the treaty on the rails even if the result is Yes.

But, among all the options available, the one which seems most unlikely is that France should abandon its strategy of a tight alliance with Germany. Conversely, it is almost as unlikely that Germany should abandon its strategy of a tight alliance with France.

The Germans have some temptation to turn inwards, to their unification problems, and some temptation to assert a bigger international role for Germany, as at the UN. But, at the end of the day, the Germans and the French are almost certain to revert to their joint alliance as their top foreign policy priority.

The Germans have no alternative that looks equally plausible in the medium term; the French have no alternative at all.

This week's British proposal for a suspension of the ERM was a transparent attempt to prevent the appearance of too obvious a two-speed Europe, with Britain (and Italy) consigned to the slower track. The hard political fact is that there has always been a two-speed Europe, and Britain has always been on the slower track because that is the European speed it has preferred.

Prime Minister John Major has repeatedly said his aim was to put Britain at the heart of Europe, and he continues to repeat his commitment to the principle of the ERM. But the heart of Europe is defined by the relationship of France and Germany, and it is their relationship which will determine the future of the Community.

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Breaking out of D-Mark's orbit

"Countries... which have, not without success, mounted domestic battles against inflation would, by devaluing, place at risk the success of these policies. They have good reason to avoid this solution. But, according to circumstances, that is not always possible." - Mr Helmut Schlesinger, president of the Bundesbank, in speech in Kiel, September 14, 1992.

THIS MONTH'S foreign exchange turmoil illustrates the awesome speed with which monetary upheaval can spread through the continent.

The Bundesbank has become increasingly suspicious of the way that the European Monetary System (EMS), set up in 1979, has during the last 5¾ years started to develop into a fixed exchange rate system.

Mr Helmut Schlesinger, president of Germany's independent central bank, outlined in Kiel how countries which had registered higher inflation than Germany since the last full-scale realignment in January 1987 would sooner or later have to devalue.

Aided by his own well-publicised hints the next day of a sterling devaluation, Mr Schlesinger's prediction came true – possibly, more quickly than the 68-year-old Bundesbank chief could imagine.

During the last five years, most western European countries, either directly through the EMS's Exchange Rate Mechanism, or indirectly through unilateral pegging arrangements, have anchored themselves to the D-Mark.

A primary motivation has been to prepare for the EC's goal of economic and monetary union (Emu) – a goal which the Bundesbank has long regarded with ill-disguised antipathy.

Within the space of just over a week, the Bundesbank has helped orchestrate two important coups. What had previously appeared a relatively well ordered system of European exchange rates has suddenly crumbled.

Into the EMS, the Bundesbank has injected a large amount of greater flexibility. Into the debate about Emu, it has brought a sizeable dose of realism about the feasibility of the timetable for moving to a single currency by the end of the century.

Successive waves of financial market speculation have washed through the currency defences of four countries, and severely tested several others.

The EMS, which Mr John Major, the UK prime minister, two years ago called "a modern-day gold standard with the D-Mark as the anchor", is rapidly losing the "softer", more inflation-prone currencies at its periphery.

Finland has severed its unilateral tie to the European currency unit. Italy has devalued within the EMS by 7 per cent, and is floating – it says – until Tuesday. Spain has devalued by 5 per cent. And Britain has decided to float sterling until "market conditions" permit re-entry to the system.

The Swedish krona has maintained its unilateral link to the Ecu only by dint of massive foreign exchange intervention and overnight interest rates of 500 per cent. Taking into account the intervention necessary to bolster Nordic currencies outside the ERM, as well as the support for weak currencies within the system, total European exchange rate intervention is estimated at DM60bn to DM70bn over the last few weeks.

In an exchange rate system unprotected by any form of controls on capital movements, central banks' support ammunition has been rapidly spent. Intervention has had no impact on the tendency for the EMS to split between the "hard core" grouped around the D-Mark – principally, the Benelux countries, Denmark and France – and the "wider orbit" currencies outside.

Yesterday, as the Danish krone and Irish punt fell to their lowest permitted levels against the D-Mark, and the French franc also came under pressure, the EMS's centrifugal forces again came to the fore.

Even if France votes Yes to Maastricht at Sunday's referendum – an outcome which could obviate the need for a further formal realignment – the ERM as it has existed since 1987 now looks unlikely to reappear.

"The EMS seems to be going back to what it was originally: a zone of exchange rate stability with frequent exchange rate changes by mutual consent," says Mr Brendan Brown, economist at Mitsubishi Finance in London. "The Bundesbank wants to have the best of both worlds – it wants the system to be flexible enough to allow it to run its own monetary policy, but not so flexible as to lead to competitive devaluations which would be harmful for German exporters."

In the leaner and tougher ERM, the members most likely to keep their places are those which, virtually without condition, place control over their monetary affairs in the Bundesbank's hands. For all practical purposes, these "hard core" countries are now the only ones that will proceed towards Emu.

France, which has weathered a much less severe economic downturn than Britain in its quest for low inflation, has lately shown great restraint in pressing its desire for interest rate cuts. As a reward, France's credibility has risen on the foreign exchanges. This is a vital condition for French success in achieving its long-term goal of Emu – a step which would involve a collective European central bank taking the Bundesbank's position as Europe's monetary arbiter.

Before it can reach this destination France must, however, surmount some important hurdles. Through its stern efforts to bring down German inflation during the past two years, the Bundesbank has effectively exported deflation to other ERM members.

This process is likely to continue – even though the Bundesbank will almost certainly maintain gentle downward pressure on interest rates in the coming months.

As a result of the financial pressures in Germany caused by German unification, members of the ERM will continue to pay a price for the privilege of allowing the Bundesbank to decide their monetary policies.

At the same time, the "outer orbit" countries which have devalued may experience – at least in the short term – a pick-up in their economies. If this happens, electorates in the "hard core" may look out with some envy to the edges of the D-Mark solar system – and wonder whether there may not be, after all, some advantages in seeking to break free from the D-Mark's gravitational pull.

David Marsh

The D-Mark's gravitational pull

Spain tries to avoid interest rate rise

By Peter Bruce and Tom Burns in Madrid

THE SPANISH Government was yesterday trying hard to stave off a rise in interest rates after agreeing to a 5 per cent devaluation of the peseta at the emergency meeting of the EC monetary committee in Brussels in the early morning.

By late afternoon, the Bank of Spain is understood to have injected some $12bn into the interbank market to dampen strong pressure for higher rates. The central bank, though, said it had not intervened in the foreign exchange markets and the peseta showed some signs of stabilising around Pta70 to the D-Mark, well down on its new parity of Pta68.4 but still comfortably clear of its Pta72.6 floor.

The Spanish authorities are hoping desperately that the devaluation agreed in Brussels would see the currency through at least the rest of the week, until the French referendum on the Maastricht treaty on Sunday. Upward pressure on rates in the interbank market showed there were still worries about the fate of the Spanish currency ahead of the French vote.

Spanish officials went to Brussels on Wednesday night determined to remain in the exchange rate mechanism and there was considerable satisfaction in Madrid yesterday that this had been achieved. "ERM membership is the biggest asset Spain has," said Mr Jaime de Pinies, chief economist at Banco Santander de Negocios.

NEW ECU CENTRAL RATES

BFr	41.9547
DM	2.03412
DKr	7.75901
Pta	139.176
FFr	6.82216
£	0.689533*
Dr	250.550
I£	0.759300
L	1632.36*
LFr	41.9547
Fl	2.29193
Esc	176.844

* Suspended from ERM
Source: EC monetary committee

Mr Carlos Solchaga, the finance minister, told MPs that the government had been forced to devalue to protect itself against speculators. It had been inevitable because after the exit of sterling and the lire speculators would have turned against the peseta and an interest rate rise would have been unable to prevent it.

Nevertheless, the devaluation badly undermines Madrid's long-standing commitment to a strong currency and passes the burden of fighting inflation on to the budget.

Mr de Pinies said he believed the Bank of Spain would need to raise its 13 per cent base rate by up to 2 percentage points if the French vote against the treaty on Sunday, but warned that this would be "a very dangerous thing to do as we enter a recessionary phase in the economy".

The other solution would be to devalue further, he said. But the 5 per cent devaluation is already likely, to add at least one percentage point to Spanish inflation this year said Mr Jorge Hay of Banco Central Hispano.

Business insisted that complementary moves by the government were necessary to maintain the credibility of the new exchange rate. "The devaluation means nothing unless it comes together with a budget that sharply reduces the public deficit and forces through salary moderation," said Mr Guillermo de la Dehesa, chairman of Spain's association of chambers of commerce.

Mr Solchaga is due to present his 1993 budget to parliament next month, a task already hampered by huge overruns on spending and income shortfalls this year. Draft proposals suggest the government has been considering a nominal increase in spending of 8 per cent but this, yesterday, was beginning to look distinctly expansionary. Mr de Pinies said Madrid should now be looking at a 5 per cent increase "at the most".

Spain's public sector deficit in the first half of this year was 40 per cent up on 1991 and 116 per cent higher in the month of July. The current account deficit in the first half overshot official forecasts by more than Pta428bn to stand at Pta1,405bn. The country is running the second highest trade deficit in the west.

Yesterday's devaluation was the first since Prime Minister Felipe Gonzalez' socialist Government devalued immediately after coming to power in 1982.

Turmoil fuels French campaign

By David Buchan in Paris

RIVAL campaigners in the French referendum on the Maastricht treaty were yesterday quick to exploit the European monetary turmoil to bolster their respective cases, with the Yes camp calling for the stability of a single Eurocurrency and the No group casting new doubt on the feasibility of such a unit.

Most, however, seemed agreed that the outcome of Sunday's vote was as important as ever for France and Europe.

Mr Pierre Bérégovoy, the Socialist prime minister, warned that a No verdict in Sunday's referendum on Maastricht would create fresh "difficulties" for France and other European countries.

For the RPR, the largest opposition party, Mr Edouard Balludur, a former conservative finance minister, said the crisis on the money exchanges "shows we have even more need of Europe, of greater co-ordination among us, without which we are condemned to disarray".

Le Monde said in an editorial that "the bursting apart of the European Monetary System indicates that a certain number of countries – grouped around Germany and France – could rapidly create a unified monetary zone" in a two-speed Europe.

Mr Jacques Barrot, parliamentary leader of the 40 centrist UDC deputies, said that approving Maastricht would give a new push towards economic and monetary union, which was needed "to bolster an EMS which was becoming more and more battered". By forging a common Ecu, the Community would have a "bar of steel" to replace "the chain of the EMS, whose links can always snap".

But Mr Philippe Séguin, a leading No campaigner within the RPR, said the currency turmoil had shown "before our eyes" that Maastricht was "an historic misconception". Differing economies could not be put into a monetary straitjacket, he suggested. He was due last night, at one of the few big rallies in a campaign that is now winding down, to develop this theme at Versailles' Palais des Congrès.

Echoing Mr Séguin from the other end of the political spectrum, Mr Charles Fiterman, a leading Communist, said that developing a single currency would not resolve the differences between EC economies. A French defeat of Maastricht would allow "a rapid re-discussion" of the treaty to develop a new European policy. This would be better than simply "waiting for crises which will be inevitable if we advance along the lines laid down in the [Maastricht] treaty," Mr Fiterman added.

However, Maastricht's opponents yesterday displayed some nervousness that financial fears might tip the balance on Sunday in favour of the treaty. Mr Max Gallo, a Socialist Euro-MP, said it was "scandalous propaganda" for many commentators to suggest that the uncertainty surrounding the French referendum was the cause of this week's "monetary storm".

The currency market upheavals underlined the importance of monetary and economic convergence as an insurance against further shocks, the Patronat employers' organisation said.

Mr Michel Albert, chairman of AGF, the state-owned insurance group, warned that a No vote would hit savings and property values. The financial markets would see "a fall, the size of which no one can foresee." Dealers would test the franc to the limit, which would be "tantamount to a devaluation," he said.

Trader on the Paris Bourse checks gyrating prices on the screen

THIS IS the edited text of the statement issued by the European Community monetary committee after its meeting early yesterday.

"The ministers and central bank governors of the member states of the European Community, after consultation with the monetary committee of the European Community, have taken note of:

- **The decision of the United Kingdom authorities to suspend in present circumstances the participation of their currency in the exchange rate mechanism;**
- **The subsequent decision of the Italian authorities to abstain temporarily from intervention in the foreign exchange markets.**

They all stress their unanimous commitment to the European Monetary System as a key factor of economic stability and prosperity in Europe.

The authorities of those countries which observe the intervention obligations of the exchange rate mechanism urge the resumption of the full participation of the pound sterling and of the lira as soon as possible.

At the request of the Spanish authorities, the ministers and central bank governors have further, by mutual agreement following a common procedure involving the Commission, and after consultation with the monetary committee, decided on a realignment within the exchange rate mechanism of the EMS.

The bilateral central rates of the Spanish peseta have been reduced by 5 per cent.

The agrimonetary consequences will be examined by the competent bodies."

British effort to suspend mechanism quickly rebuffed

By Andrew Hill in Brussels

BRITAIN'S attempts to persuade its EC partners to suspend the European Exchange Rate Mechanism were quickly rebuffed by senior treasury and central bank officials at their crisis meeting, it emerged yesterday.

The EC's secretive monetary committee, which in effect manages the European monetary system, took just under six hours to frame a communiqué aimed at soothing the turbulent currency markets.

The crisis meeting was already the EC's worst-kept secret when it began just before midnight on Wednesday. It ended at 5.30am yesterday under the glare of television arc lights, when the committee opted to endorse suspension of ERM membership for sterling and the lira, and devaluation of the peseta, rather than temporary suspension of the whole grid system.

The British plan – which would have allowed the 11 currencies to find their own level in the markets – was apparently backed by the Italians and Spanish. But their partners rejected what was seen as an attempt to save political face at home, and a threat to the future of the EMS.

"[Suspension] would have been really awkward," said one senior central bank official yesterday. "If one had embarked on general floating [of currencies], one would really have undone the whole structure."

Officials yesterday claimed that the atmosphere of the meeting had been comparatively calm and free from recriminations.

British officials claimed that other EC members had repeated calls for lower German interest rates – without making any headway.

It was clear that political considerations had a strong influence, including the need to be able to reaffirm economic and monetary union (Emu) as a legitimate goal of the Community.

Asked as he left the meeting if the committee's decision marked "the end of Emu", Mr Horst Köhler, German state secretary of finance, said the meeting was simply "the continuation of good co-operation" among the 12.

Japan backs G7 currency plans

By Charles Leadbeater in Tokyo

JAPANESE leaders yesterday threw their weight behind moves for the meeting tomorrow of finance ministers from the Group of Seven leading industrial countries, to draw up contingency plans to make sure European currency instability does not spread.

Officials in Japan are concerned that the European currency crisis may put the US dollar under pressure, strengthening the yen and thus pushing Japan towards cutting interest rates.

Mr Kiichi Miyazawa, prime minister, said the meeting tomorrow would discuss ways to calm European currency markets, and Mr Tsutomu Hata, finance minister, said Japan was ready to back concerted action to prevent instability spreading. Mr Hata will meet his US counterpart, Mr Nicholas Brady, this afternoon.

Mr Koichi Kato, chief cabinet secretary, suggested the G7 might take co-ordinated action to stabilise European currencies. A senior official at the finance ministry said plans were being prepared for concerted intervention in the Tokyo market on Monday if, in their referendum on Sunday, the French vote against the Maastricht treaty on European integration.

The Tokyo market would be the first to feel the violent impact that a French rejection of the treaty could have on forex markets. Finance ministry officials said the G7 meeting would probably draw up a contingency plan for concerted intervention in Tokyo in case the vote went against the treaty.

Beyond these immediate worries, the turmoil of the past week, combined with the imminence of the French vote, has provoked concerns among Japanese financiers, industrialists and policy-makers.

Mr Yuji Tanahashi, vice-minister at the ministry of international trade and industry, warned that, if the pound's suspension in the ERM were prolonged, Japan would be hurt. One main worry is that the US dollar may soon be sucked into the turmoil. That would drag in the yen. If the French vote against Maastricht, Tokyo financial analysts expect the D-Mark to strengthen against the dollar, which would further weaken against the yen.

A weaker dollar would limit the US scope to cut interest rates to revive its economy. Prospects for a recovery of Japan's battered economy would be enhanced by higher exports to North America, so Japan would come under strong pressure to cut interest rates. Mr Yukio Yanbe, DKB Research Institute's chief economist, said: "If the dollar weakens, a wider adjustment will be necessary to prevent the dollar falling too far."

Camdessus sees stronger ERM

By Michael Prowse and George Graham in Washington

MR Michel Camdessus, managing director of the International Monetary Fund, predicted yesterday that the European Monetary System would emerge strengthened from the crisis of the last few days, but he blamed unbalanced German policies for underlying strains in the currency markets.

He said "too much of a burden" had been placed on the German monetary authorities and "not enough emphasis put on budgetary instruments."

He did not criticise Britain, which he praised for having taken vigorous steps to reduce inflation. "I would not say that I am pressing for any kind of adjustment effort for Britain," he said.

Taking a broader view, Mr Camdessus said the root cause of turbulence in foreign exchange markets was excessive reliance on monetary, as opposed to budgetary, policies. "If we have problems, it is because we have delivered only half of what we promised to do," he said, in a reference to US as well as European economic policy.

Mr Camdessus said leading countries should not use evidence of a "hesitant" world economic recovery as an excuse for delaying action to reduce budget deficits. Strong, immediate steps to consolidate budgets were an urgent priority. Vigorous action to liberalise labour markets was also needed if a resumption of world growth was to bring about significantly higher employment.

He took a resolutely optimistic view of likely developments in the EMS – as did Mr David Mulford, US Treasury under-secretary for international affairs. "No one wants to see turbulence in currency markets because it can have spill-over effects into other financial markets if it's not addressed. It has been addressed," Mr Mulford said.

He said it was difficult to judge the effectiveness of the combined lira devaluation and German interest rate cut agreed last weekend, because the turmoil in foreign exchange markets in the last week had been greatly exacerbated by the prospect of the French referendum on the Maastricht treaty, to be held on Sunday.

"I think the actions taken in Europe in the past 24 hours have been the right ones because, in a sense, they suspend judgment on those issues until we can pass this event, and they take the pressure and the tension out of the system," he said.

Mr Mulford said the dollar's revival since the weekend showed that its earlier weakness was purely a residual effect of European tensions, and not a judgment on the fundamentals of the US economy.

■ Fund managers pour money into equity market ■ Moves to cut currency exposure ■ Dollar strength challenges industry

City finds new hope amid apparent crisis

By Maggie Urry

THE STEEP rise of the equity market yesterday might appear a perverse reaction to an apparent economic crisis, but to people in the City the jump in shares was entirely logical.

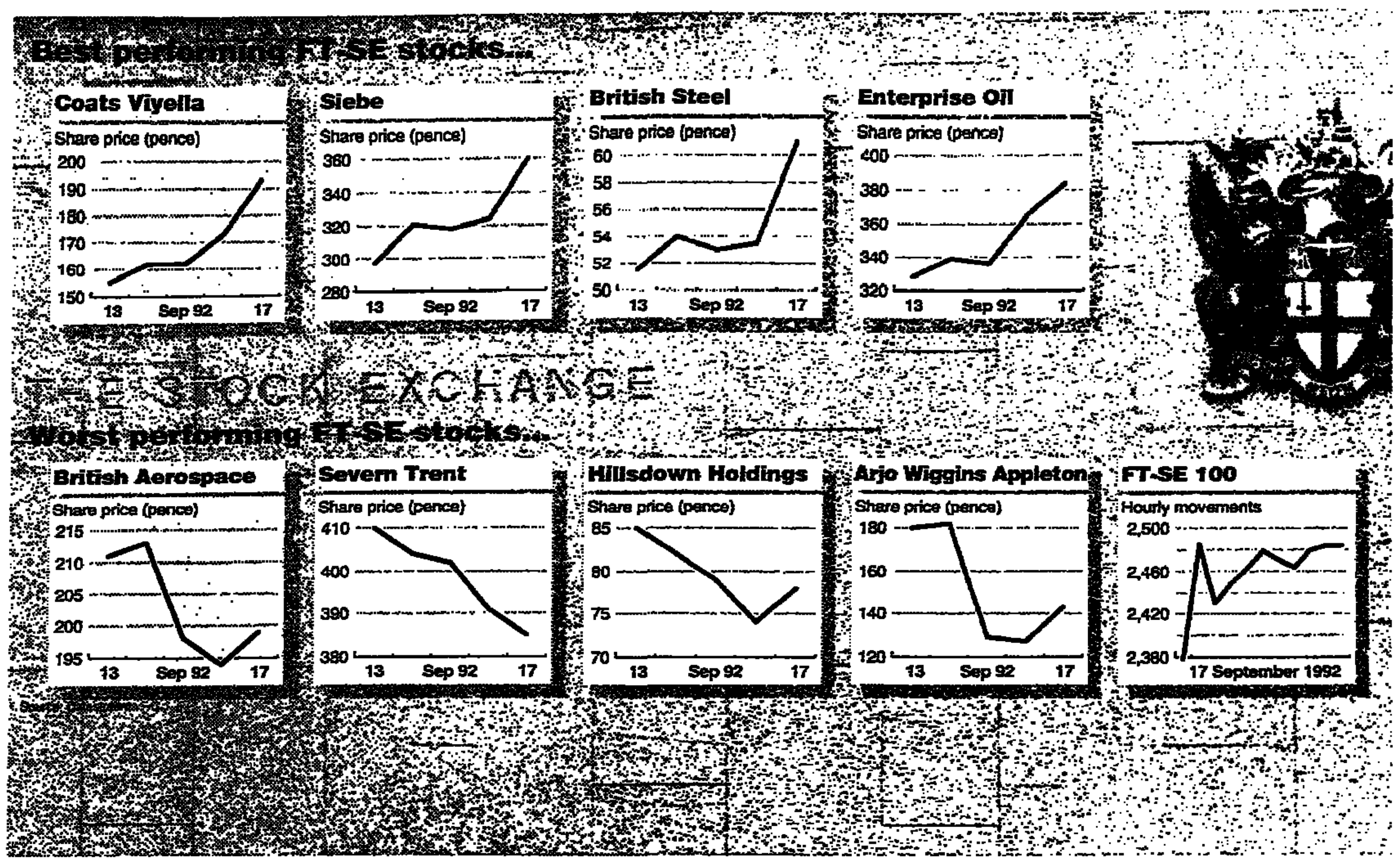
The volume of share trading was huge as fund managers poured money into the market.

"It is one of those very rare occasions in one's life when the world does change overnight," says Mr Nick Knight, equity strategist at Nomura Research Institute. He has been one of the most bearish stock market commentators in recent months, but overnight he has become optimistic.

He has not had time for detailed analysis but says: "Forget the numbers. We're bullish!"

Mr Knight expects a cut in UK interest rates from 10 per cent to 8 per cent, perhaps today. The reversal from the 15 per cent interest rate mooted only 24 hours earlier could hardly be more dramatic. "On Wednesday morning the policy was low inflation at any price. Today [Thursday] it is growth at any price.

"Up till 2 pm on Wednesday the government's performance had been incredibly bad," he says. "The first sensible thing they did was push rates from 12 to 15 per cent. The next sensible thing was to walk away from it that evening, and the third was to cut to 10 per cent."



Mr Alun Jones, UK equity research analyst at UBS Phillips & Drew, is not quite so dramatic in his remarks, but he, too, believes that the whole basis for looking at the market has changed.

He had expected the government to try to defend sterling with higher interest rates for longer than a few hours, although he had assumed the end result would be the same. He too is looking for an interest rate cut – though perhaps only of 1 percentage point – by the time of the Conservative party conference.

Cynical analysts suggest that the best hope the prime minister and the chancellor of the exchequer can have of regaining support in the Conservative party is to cut interest rates before the conference begins on October 5.

An interest rate fall needs to work through to a mortgage rate reduction before consumers' willingness to spend is likely to recover.

The equity market is now looking for a recovery in company profits, firstly from the effect of translating profits made abroad into sterling at a lower exchange rate. Then comes the benefit of a weaker pound to companies that export and those which compete with imported goods. After that, a resumption of growth in the economy expected from lower interest rates should begin to feed into company profits.

An immediate boost will come for companies that translate their overseas profits into sterling at year-end rather than average exchange rates. Mr Jones says that whereas a week ago stockbrokers were forecasting lower profits for the market as a whole in 1992, it is now possible to look for a small rise.

In 1993, UBS P&D reckon, a 10 per cent devaluation in sterling would add 6 per cent to industrial profits. Further, a revival in the economy should be possible without an immediate increase in inflation. "The economy is so weak that inflationary pressures are snuffed out for quite a while."

The equity market had been a little uncomfortable about the idea of persistent low inflation. Equities have been regarded as a hedge through the high-inflation years, and performed well relative to fixed interest securities.

Favoured sectors and stocks are those with big overseas earnings or which compete internationally, and among mainly domestic companies, those in cyclical industries.

During the recession, fund managers shifted the weighting of their portfolios away from cyclical stocks to the so-called defensive sectors – companies that should do well even in more difficult times, such as drug companies, food retailers and utilities.

Yesterday the switch back began. As Mr Knight put it: "Sell defensives; there is nothing to be defensive against."

Rises were seen in the share prices of companies with large US earnings, such as Tomkins, Siebe and United Biscuits. Coats Viyella gained both from its dollar exposure and because it competes in the UK with imports, as does British Steel, another gainer.

Also well ahead were companies in the building sector, such as Blue Circle, which would benefit from lower interest rates, and, in furniture stores, MFI rose strongly.

Defensive stocks were left behind in the general surge. A few shares even fell yesterday, particularly in UK-oriented companies and utilities such as Northern Foods, Sainsbury, BT and some water stocks. Marks and Spencer shares rose less than the market.

Also gaining were some of the banks, whose exposure to bad debts is now perceived to be less serious. There were dramatic increases in the prices of smaller property companies, such as Stanhope and Rosehaugh, which had been regarded as high-risk investments when the outlook was for interest rates to remain high.

QUOTES OF THE DAY

The ironic thing is that we may get an economic recovery because the government's policies failed
–
Ruth Lea, chief economist at Mitsubishi Bank in London

At the present time I see no benefit in going back into the EMS – one man has 99 per cent of the votes and that man resides in Germany
–
David Rough, group director of investments, Legal & General

I think it is unjust to try to blame the Germans. Everybody would do well to analyse themselves what should be done in their own house
–
Theo Waigel in Bonn

If I have a suggestion for the French, it is to think about the exact contents of the Maastricht treaty, to read this treaty carefully. I insist
–
Margaret Thatcher

I understand all Lamont's colleagues are behind him. That's the most dangerous place you can be in the Conservative Party
–
Dr Dorothy Rowe psychologist and author

Let's not ask more of the European Monetary System than it can provide
–
Jacques Delors

The holidaymaker who stayed on the beach yesterday and didn't change any money is the lucky one
–
Thomas Cook spokesman

It has opened up a range of new policy options that could lead to economic recovery by Christmas – if ministers will grasp the chance
–
David Holliday, president of the House Builders Federation

I think I'm going to ask for my redundancy pay in Deutschmarks
–
Sophie Niall, typographical worker facing redundancy, on Wednesday evening

Actually, change that to Swiss francs after what happened last night
–
Her comment on Thursday

Managers in scramble to minimise risk

By Tracy Corrigan and Richard Waters

AS STERLING sank further yesterday, foreign exchange dealers were not the only professionals active in the market. Fund managers and corporate treasurers with exposure to sterling have had a busy couple of days.

"It was a case of trying to minimise the risk in a portfolio," said Mr Terence Prideaux of Kemper Investment Management, a US investment house. "Given the size of the currency flows, any prudent investment manager would have had to explore the question of currency exposure."

Another fund manager, who said he had taken a position against sterling "at the margin" to protect a portfolio already heavily weighted against the pound, said: "You knew, as soon as 15 per cent interest rates were announced, that it wasn't sustainable. It was just a non-starter."

Dealers said that there was activity from a wide range of fund managers, with Swiss and US managers particularly quick off the mark.

While some fund managers moved assets between markets, others tried to hedge currency exposure within their existing portfolios.

"The main focus was hedging currencies against the D-Mark," said Mr Axel Benkner of DWS, the German fund management group.

Corporate treasurers, while still assessing the long-term effects of recent events on their businesses, were also active in moving against potential short-term exposure in recent days.

"There has been a fair amount of activity" among corporate treasurers, said Mr Tony Rice, group treasurer at British Aerospace. "Those of us with dollar exposure have had to sit on our hands for a while. Today was an opportunity to put cover in place at much lower rates."

However, a number of fund managers and corporate treasurers complained that the volatile market conditions eroded liquidity, just when they most needed to get their business done.

"The problem we were up against is that in times of such uncertainty banks are unwilling to commit themselves in the forward market," he said.

"This morning the long-dated forward foreign exchange market disappeared and the sterling swaps market was gone for several hours."

Even in the spot foreign exchange market – the world's most liquid market, trading became more difficult, as the margin between buy and sell prices on the dollar/sterling rate, normally between 3 basis points and 10 basis points, went up to 50 basis points.

In those conditions, some treasurers decided that discretion was the better part of valour.

"We were reluctant to deal in a disorderly market," said one corporate treasurer at a UK company, "so we decided to stay on the sidelines until things calmed down."

Corporate treasurers and fund managers often hedge exposure in the options market.

However, the recent level of volatility – and growing demand as sterling came under increasing pressure in recent weeks – pushed prices up to extremely high levels, which makes it uneconomical to hedge using options. Instead, activity has been concentrated in the forward foreign exchange market and even in the spot market, contributing to the pressure against the pound.

The surge of volume in the foreign exchange market, coupled with the widening of spreads (essentially, the fees charged by banks) will substantially have boosted trading profits at banks.

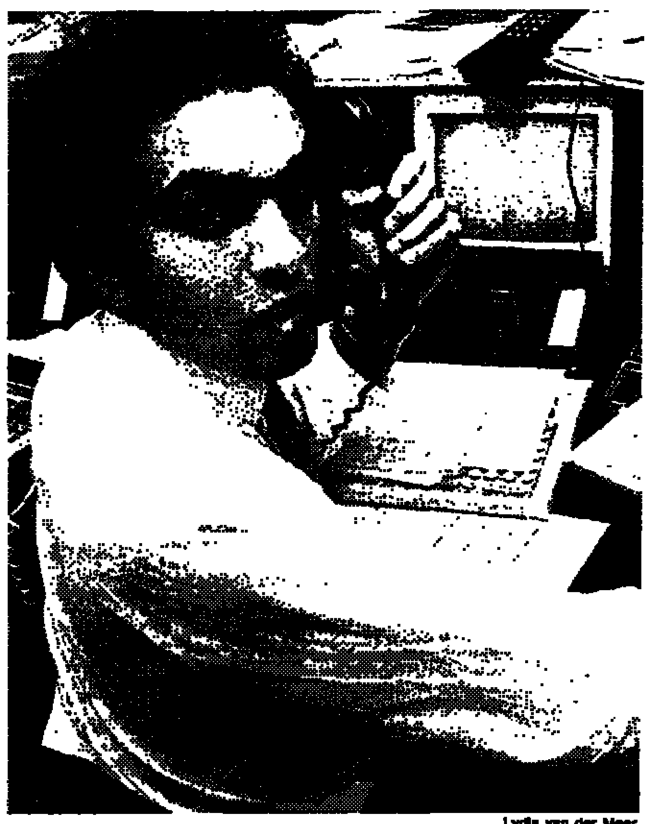
But the biggest source of profits for foreign exchange traders, at least on Wednesday, was that, in spite of tumultuous market conditions, they found themselves with a one-way bet, as the Bank of England proved an unlimited buyer of sterling throughout the day.

Total central bank intervention on Wednesday alone may have topped £20bn.

A senior executive in one of London's moneybroking firms, which are reckoned to handle around 40 per cent of foreign exchange business on a typical day, said that the leading broking firms alone had handled more than £10bn of sterling purchases by the Bank of England on that day.

As the Bank intervened in the market, offering to buy sterling in minimum amounts of £30m – compared to a normal market size of £5m-£10m – it found a succession of banks and corporate treasurers willing to sell.

"Every bank around the world had taken a position against sterling," the broker said.



Lydia van der Meer

John Banerjee of Chemical bank: "We've all just pitched in"

Traders turn a swift foreign exchange profit

By Tracy Corrigan

AFTER 12 hours at his desk on Wednesday Mr John Banerjee, a 24-year-old foreign exchange dealer at Chemical Bank, was back in the office at 7am yesterday, taking over from the bank's regular night shift.

He normally concentrates on trading the dollar/Swiss franc and the D-Mark/Swiss franc rates, but in the last few days, dealers have abandoned their regular patches.

"We've all just pitched in," Mr Banerjee explained. "I've been trying to arbitrage the sterling market."

Since the Bank of England was publicly buying sterling at DM2.7780 on Wednesday, dealers were able to buy sterling against the dollar and then sell it to the Bank of England, earning handsome profits as sterling continued to dip below the floor.

As he walked into the office yesterday, after the pound had been suspended from the European exchange rate mechanism, sterling was still being sold.

Although volume had subsided somewhat, trading conditions remained difficult.

"The market is very nervous today, and it is difficult to get people to make prices and difficult to get client business done," Mr Banerjee said.

He did not get a lunch break yesterday – but then, he never does. Instead, like his colleagues, he consumes sandwiches delivered to his desk.

Liquidity improved when the US market opened around midday, and by the end of the trading day sterling appeared to have stabilised somewhat at about DM2.63.

By 4.30pm yesterday the roar of orders and price quotes across Mr Banerjee's desk had started to subside. Traders normally start to leave from 5pm. Even when markets are busy, a night staff is at hand to take over when European markets close.

Mr Banerjee joined Chemical Bank two years ago after gaining a degree in economics from Sussex University.

"When I was at university I studied theoretical foreign exchange models," Mr Banerjee remembers. "They may have some relevance to the big picture, but what people actually do in the markets is another matter."

In spite of his relatively short time in the market, Mr Banerjee has already experienced frantic market conditions.

"The day after the Soviet coup [last summer], the volume in dollar/D-Mark was phenomenal," he said.

Business faces up to stronger $

By Our Industrial Staff

FOR UK industrialists bemused by the continued upheaval in European currencies yesterday, one fact stood out like a beacon. The sterling-dollar rate is now at $1.77. At the start of the month it was at $2. Sterling is thus 12 per cent lower than it was a fortnight ago.

For reasons that are partly historic, the dollar remains the most important single currency for UK manufacturers dealing with the outside world. In terms of actual trading, as opposed to the translation of overseas earnings, a stronger dollar cuts three ways.

It is good for exporters and those competing against dollar-based goods at home or abroad. It is bad for importers. And it is decidedly mixed for small companies that cannot afford sophisticated currency hedging, since a switchback dollar adds to their trading risks.

An excellent example of an industry that benefits is aerospace. This is a business denominated in dollars. For UK manufacturers, the weak dollar has compounded the difficulties caused by the recession in civil aviation and government cuts in military spending.

Rolls-Royce, the UK aero-engine and industrial power group, said yesterday that a stronger dollar was better for the company. "We build in pounds and sell in dollars," a Rolls-Royce official said.

Rolls-Royce said earlier this month that the weak dollar had reduced its first-half profits by £10m compared with last year. The weaker dollar also benefited Rolls-Royce's principal US competitors, General Electric and Pratt & Whitney.

A stronger dollar will also help UK aerospace companies such as British Aerospace and components manufacturers such as Smiths Industries, TI-Dowty and Lucas.

Sterling's fluctuations will have less impact on UK airlines. British Airways explained yesterday that it sold tickets on both sides of the Atlantic. A firmer dollar resulted in improved US traffic while a stronger pound boosted UK travel across the Atlantic. The US currently accounts for about 30 per cent of BA's passengers.

Another beneficiary is the UK's oil sector, where sterling's devaluation was warmly welcomed. "It's tremendously good news from a sterling oil company's point of view," said Mr John Walmesley, the finance dirctor of Enterprise Oil, the independent oil company. "It will provide relief for a hard-pressed sector."

The devaluation will raise the sterling price of oil close to £12, widely regarded among North Sea operators as a "comfort" threshold.

In the UK motor industry, the effects are limited to specialist manufacturers, since volume exports of cars from the US to the UK and continental Europe still play only a minor role in the European market.

Against that, Jaguar and Rolls-Royce Motor Cars, the two UK luxury carmakers, will both reap benefits from lower sterling as Britain's main car exporters to the US.

North America accounted for 44 per cent of Jaguar's worldwide turnover last year of £693m, and the previous steep fall in the value of the dollar has played a role in its mounting losses, totalling £226m last year.

For Rolls-Royce Motor Cars, the loss-making subsidiary of the UK engineering group Vickers, North America accounts for about 28 per cent of worldwide turnover.

Jaguar and Rolls-Royce have both suffered badly in the recessions in the UK and US. In North America, however, fierce competition has meant that there has been little scope to raise prices to compensate for loss of revenue caused by the prolonged fall in the value of the dollar.

Devaluation of the pound against the dollar and D-Mark will also give an important edge to the competitiveness of the UK luxury carmakers in North America against their main rivals, Mercedes-Benz and BMW of Germany.

Among losers from devaluation are companies that depend on dollar-denominated raw materials.

A good example is UK Corrugated, one of the country's largest producers of cardboard boxes. The company's chief executive, Mr Pat Barrett, said yesterday, "Nobody can make any sensible decisions for the next 10 days. I am going to play golf all day tomorrow."

Mr Barrett's dilemma is that UK Corrugated imports 30 per cent of its raw materials from the US. Earlier this year the company was paying $540 a tonne for kraftliner – its basic raw material – or £308 at the exchange rate then prevailing. The supplier's price then went up by $40. But because of the rise in sterling, the company could absorb the rise without trying to pass it on to customers.

Now, after sterling's fall, UK Corrugated is likely to pay about £331 a tonne, a 7.5 per cent rise.

Mr Barrett said yesterday: "The government's policy of maintaining the pound in the ERM to control inflation was absolutely right for my industry. The strong pound controlled the cost of imported raw materials. For us, the cost of making cardboard boxes has gone up 2½ per cent since Tuesday."

The ambivalent effect of weaker sterling on smaller companies is illustrated by The Rocking Horse Shop, a Yorkshire-based company that makes and despatches craftsman-built rocking horse kits to the US."

The company's owner, Mr Tony Dew, said: "It's knowing what prices to quote at the time orders are taken which gives us the biggest headache." Mr Dew said miscalculating exchange rates over the period between orders and despatch for products averaging between £100 and £150 could have a marked impact on a company with an annual turnover of around £250,000.

The latest dip in the value of the pound, he says, might give US export business a boost. "But then, we buy in some of our raw materials from Germany, so that won't help."

Holiday prices may rise soon

By Michael Skapinker, Leisure Industries Correspondent

TRAVEL companies, ever eager for early cash, are encouraging customers to book their summer 1993 holidays now. Bargain-hunters should do so.

Holidays prices will probably not rise over the next few months. But if the pound remains weak until Christmas, foreign holidays may become more expensive and some operators might abandon their no-surcharge policy.

The big tour operators began selling their summer 1993 holidays last month, most undertaking to honour brochure prices and not levy surcharges. Many took advantage of the dollar, then weak, to offer cut-price holidays to the US and the Caribbean.

The weak US currency helped to keep down the price of holidays to other destinations, as airline fuel is priced in dollars.

Mr Keith Waller, marketing director of Owners Abroad Holidays, the second-biggest UK travel group, says the large companies all bought US currency forward when the dollar stood at about $1.90 to the pound. A stronger dollar will not immediately add to the cost of providing holidays.

Even relatively small holiday companies see forward buying as an essential part of their operation. Mr Noel Josephides, a director of Sunvil Travel, the specialist operator, says that before this week's currency turmoil he had bought forward three quarters of the dollars he needed for the next year at $1.92. He had also bought forward a third of his Greek drachma and half his Portuguese escudo requirements.

Mr Andrew Wilson, commercial director of travel agents Thomas Cook, says most companies' forward buying arrangements account for only 65 per cent to 70 per cent of their total requirements, so that a stronger dollar might eventually place some upward pressure on prices.

The large companies will issue new editions of their brochures towards the end of the year. Smaller companies publish brochures for the first time in November. Mr Wilson says that if the pound remains weak relative to the dollar, prices may go up.

Some companies might not offer a "no surcharge" guarantee with the new brochures, industry officials believe, although the Association of British Travel Agents code of practice stipulates that companies must absorb increased costs up to 2 per cent of the holiday price. If costs rise further they may levy a surcharge of up to 10 per cent of the holiday price.

Abta members need the association's approval to levy surcharges. Of the 685 Abta tour operators, only five currently have permission to levy additional charges.

NEWS: STERLING AND THE UK ECONOMY

Tory MPs fight shy of the ERM

By David Owen and Chris Tighe

AS THEY emerged from a series of crisis meetings, prime minister John Major and chancellor Norman Lamont must have been dismayed yesterday at their party's apparent lack of enthusiasm for the exchange rate mechanism.

In the constituencies, party members were bemused as they struggled to make sense of events experts on their television screens are unable to agree on.

"The average member in the last 24 hours is just totally, utterly confused," said Mr Malcolm Griffiths, Conservative association chairman in the Tory-held Langbaurgh constituency. "They don't really understand what's going on. I'd think that covers a fair number of MPs too."

It is vital to the credibility of both Mr Major and Mr Lamont that they win their party's support for the resumption of sterling's participation in the ERM, assuming the system survives the French referendum on Sunday.

The party conference in Brighton is just two weeks away and in spite of the cabinet's unanimous backing, it was clear that it was far from shoring up support lower down the hierarchy.

Loyalists like Mr Terence Higgins, former chairman of the Treasury and Civil Service select committee, tried to portray Tory Euro-sceptics as a hard-line minority who "have created a greater impression of disunity in the party than in fact exists".

But what was striking yesterday was the extent to which antipathy to the mechanism and the concept of fixed exchange rates appeared to have spread beyond the most vociferous of the "usual suspects".

Many MPs wanted to see the ERM reformed to make it more flexible. Such pragmatists are the people Mr Major and Mr Lamont urgently need to win back.

Sir Ivan Lawrence, MP for Burton and chairman of the home affairs select committee, was among those who said the ERM was "nothing like flexible enough".

He said: "We are so much at the mercy of gambling by the banks – it helps them and hinders us to have a set level below which you couldn't go. I have always thought tying ourselves into the ERM was not good for the economy. My economic betters may have better judgment than I but emotionally I am against it."

Mr George Walden, MP for Buckingham and a former junior minister, said the mechanism had to be "rejigged". Emu was not "a very plausible aim after all this". He called for consideration to be given to linking sterling to the reformed mechanism "in some lower and looser form".

Mr Peter Ainsworth, MP for ultra-safe Surrey East, said the past few days had demonstrated that fixed exchange rates were "fallible". But he backed the way the government responded to this week's crisis. "It was the only option yesterday to get out. It is prudent of the government to make it a temporary suspension."

Mr Winston Churchill, MP for Davyhulme, also voiced strong support for the chancellor, characterising the government's attempt at honouring its ERM obligations as "brave but forlorn". The crisis was "likely to prove excellent news for those who feared the worst".

Among those who unreservedly opposed a return to the ERM was Mr John Wilkinson, MP for Ruislip-Northwood, who said it was "not acceptable" for the government to "swan" back into the mechanism and warned of trouble in next week's Commons debate. "They have another thought coming if they imagine they will have our unconditional support."

Support for a return to the mechanism "as soon as we can" came from Mrs Edwina Currie, MP for Derbyshire South and another former minister. If Britain remained outside the ERM, there was "a fear it would affect foreign investment".

In the constituencies, the past two days' events have also aroused strong feelings. Moves towards closer European integration have been questioned by some Tory supporters who had not previously challenged the concept.

"It's very sad the stability Europe offered has proved to be a bit of an illusion," said Mr Harry Davies, chairman of the Stockton north Conservative association.

Mr Davies, who is on the left of the Tory party, believes the crisis will make party members reassess their views on Europe, and force Conservative leaders to review the policy of total reliance on inflation control. He hopes it will lead to greater flexibility. He said: "I joined the Conservative party because I didn't like dogma."

There was a general feeling that Mr Major's survival chances were better than Mr Lamont's.

Mr Davies said he had a "soft spot" for Mr Heseltine, although many Conservatives think him "a little erratic".

It was very unlikely that Mr Major would go. But he warned: "It's a little like football when the team's in trouble and the chairman says, I have the fullest confidence in the manager. And then, the next week, he goes."

Trevor Humphries

Michael Heseltine, Kenneth Clarke and Peter Lilley leave yesterday's crisis cabinet meeting

Mortgage lenders urge new rates cut

By Andrew Taylor, Construction Correspondent

MORTGAGE lenders and housebuilders yesterday begged the government not to rush back into the European exchange rate mechanism. They said ministers should take the opportunity to reduce UK interest rates further to ease the burden on homeowners.

Sir Brian Hill, president of the Building Employers Confederation, said: "The government has freed itself from the straitjacket of the ERM and now has a golden opportunity to put the UK economy on the road to recovery."

Leeds Permanent Building Society said: "If we stay out of the ERM, it is likely rates will fall. If we rejoin, it will depend on the terms and conditions, but the government will be very wary and not want to see a repeat of the last few days."

Sir Brian said confidence in the housing market would have sunk even lower as a result of the events of the past two days. "Even though interest rates finished no higher than they had been at the beginning of the week, I cannot see anybody wanting to rush out and buy a home."

The best way of salvaging the situation would be to assist the housing market. That would have a beneficial knock-on effect on the rest of the economy. "If people are more confident about the value of the roof over their heads, they are more confident about . . . buying other goods," Sir Brian said.

Confidence in the housing market was so low that the government would need to do more than lower interest rates. It should also raise the ceiling on mortgage tax relief from £30,000 to £60,000 and remove stamp duty from house purchases.

Sir Brian also appealed to the government not to cut investment in construction in the autumn spending round. That would be disastrous for an industry that had already lost 300,000 jobs since summer 1989.

Building societies echoed the call for further interest rate cuts. Mr Peter Robinson, deputy group chief executive of the Woolwich, said: "The return to 10 per cent base rates is a relief and obviates rate increases that would have further depressed the housing market and worsened problems of arrears repossessions.

"This should not mask the underlying need for positive action to restore market buoyancy. Such action should now embrace interest rate cuts to reflect sterling's lower market-related value."

Halifax, the country's biggest mortgage lender, welcomed the return to 10 per cent base rates and said there might now be opportunities for a further cut.

Smith makes ready for fight in parliament

By Ivo Dawnay, Political Correspondent

IT PROMISES to be an exciting debut. At his election as Labour leader Mr John Smith's greatest regret was that he had no opportunity to tackle the prime minister in the chamber before the Commons rose for its summer recess.

Now both he and Mr Gordon Brown, his shadow chancellor, will make their first appearance on the parliamentary stage in their new roles in next Thursday's hothouse debate on the economy.

A wounded prime minister and chancellor will have to make their defence in a bear pit, aware that many on their own back benches will be as sceptical as the opponents they face.

Yesterday a Labour pack, led by Mr Brown and Mr Smith, were tearing into the corpse of the government economic policy that died in the foreign exchange markets on Black Wednesday.

In back rooms, researchers were dredging through recent government speeches for the numerous statements on the pound and the ERM for ammunition to fire in next week's debate.

Yet the smug chorus of "We told you so" from Labour cannot disguise the fact that, by insisting on staying in the ERM and opposing devaluation, Messrs Smith and Brown were genuflecting to the very exchange rate policy advocated by their opponents.

There are plenty of explanations for that. Not least, if the Labour leadership had argued the case for devaluation it would have been accused of economic defeatism, of advocating stop-go, high-spending policies, even of that unspeakable sin, "talking the pound down".

Because they did not do so, as one assiduous propagandist pointed out yesterday, "the Tories cannot now use the 'party of devaluation' charge as a stick to beat us with".

All that bears some truth. But a credibility problem remains over what Labour will say when the Conservatives hit back with the inevitable question: What would you have done?

So far, attempts by journalists to pose that to the Labour leaders have been dodged. Once off the offensive, Mr Smith and Mr Brown have argued that Labour would never have found itself in the circumstances that the government encountered on Wednesday.

Had they been elected in April, they say, their recovery programme of job creation, fiscal incentives to industry and other shorter-term measures would by now have started to generate enough confidence to have seen off pressure on the pound.

Raise a sceptical eyebrow at that claim and the next response is that Labour would also have used the European Community presidency to seek international co-operation to bolster recovery across the Continent.

If that still does not wash, the Labour leadership's loyalists insist that a Smith government would at least have seen the writing on the wall sooner than Mr Major and, if it were necessary, raised interest rates earlier to head off a collapse of confidence in sterling.

Such claims may just pass muster as sound bites on the news programmes. But they have generated a fair deal of scepticism on Labour's benches, both back and front.

Before this week's debacle in the foreign exchange markets, the lobby for a change of tack on ERM policy – and on the whole Maastricht treaty – had been growing. Mr Bryan Gould, the arch-Euro-sceptic, had led a chorus of frontbench doubters, and overtly pro-Maastricht Labour MPs had questioned the leadership's line as lacking in credibility.

Mr Brian Sedgemore, the former anti-European turned quasi-federalist leftwinger for Hackney South and Shoreditch, has proved one of the most adept at arguing that Mr Smith's standpoint has undermined Labour's credibility.

"What we have been arguing is that you can have the same fiscal deficit, or perhaps a slightly larger one, significant cuts in interest rates and still maintain the parity of the pound at DM2.95 – it has been moonshine," he said.

"Furthermore, some who have argued it have not believed it."

Labour, he goes on, can say that it has kept its virility as a non-devaluationist party. But the downside is that the leadership must now devise a new grand strategy with its credibility impaired.

How much all that will matter in the debate next Thursday remains to be seen. Certainly the critical spotlight will be on the government, not the opposition.

With devaluation a *fait accompli* and the French referendum outcome creating an opportunity to devise a fresh Labour policy on Maastricht and the economy, the Commons on Thursday will also offer Mr Smith a Godsent chance to demonstrate his debating skills on Mr Major as the prelude to a resounding reception in Blackpool.

But already some niggling doubts over his economic caution and strategic judgment have been raised. Mr Smith knows he must be sure his shots hit their mark.

NEWS: STERLING AND THE UK ECONOMY

Devaluation leaves most unaffected

By Edward Balls

CITY speculators have made a killing, the government has lost face, but for most people this week's devaluation of the pound on the foreign exchanges makes little difference. At least for now.

There will be some immediate winners and losers among the general public. Those people lucky enough to be sitting on an uncashed dollar or D-Mark cheque will have made overnight windfall gains as a result of Wednesday's sterling devaluation. People planning foreign trips will now find that their holiday savings buy fewer beers by the beach.

But, for the majority of people, there are no immediate harmful effects and some goods news too.

The chilling prospect of a rise in mortgage interest rates has receded. Wednesday's rise in interest rates, as the government attempted to defend the value of sterling against foreign exchange dealers, has been reversed.

Indeed, life outside the exchange rate mechanism may allow single-digit interest rates in Britain before long were the government to choose to postpone its proposed re-entry into the ERM.

Meanwhile, the domestic purchasing power of the incomes and savings of ordinary people will initially be little changed by Wednesday's events. Some importers may react by raising their prices immediately. But the impact of the fall in the foreign exchange market value of sterling does not mean, as Mr Harold Wilson pointed out in his prime ministerial broadcast after the 1967 devaluation, "that the pound here in Britain – in your pocket or purse or in your bank – has been devalued".

The most important, if least obvious, initial effect of the devaluation of sterling is its impact on the competitiveness of UK exporters. The impact of the fall in the sterling exchange rate should boost the profitability of British exporters of internationally traded goods over the coming year.

The 7 per cent devaluation of sterling against the D-Mark means that exporters, by leaving the foreign currency prices of their goods unchanged, can boost their sterling margins. The rise in industrial profitability, towards European levels, should make manufacturing in the UK more attractive and help to close Britain's trade deficit.

Unless, that is, sterling's devaluation is followed by a renewed burst of domestic wage and price inflation. That has certainly been the British experience in the 2½ decades since Mr Wilson's apparently reassuring words.

At home, a pound is now worth little over a tenth of its 1967 value. Its purchasing power has fallen by 89 per cent since the beginning of that year. So a pound earned in 1967 would buy only 10 pence worth of goods at today's prices, as the upper chart shows.

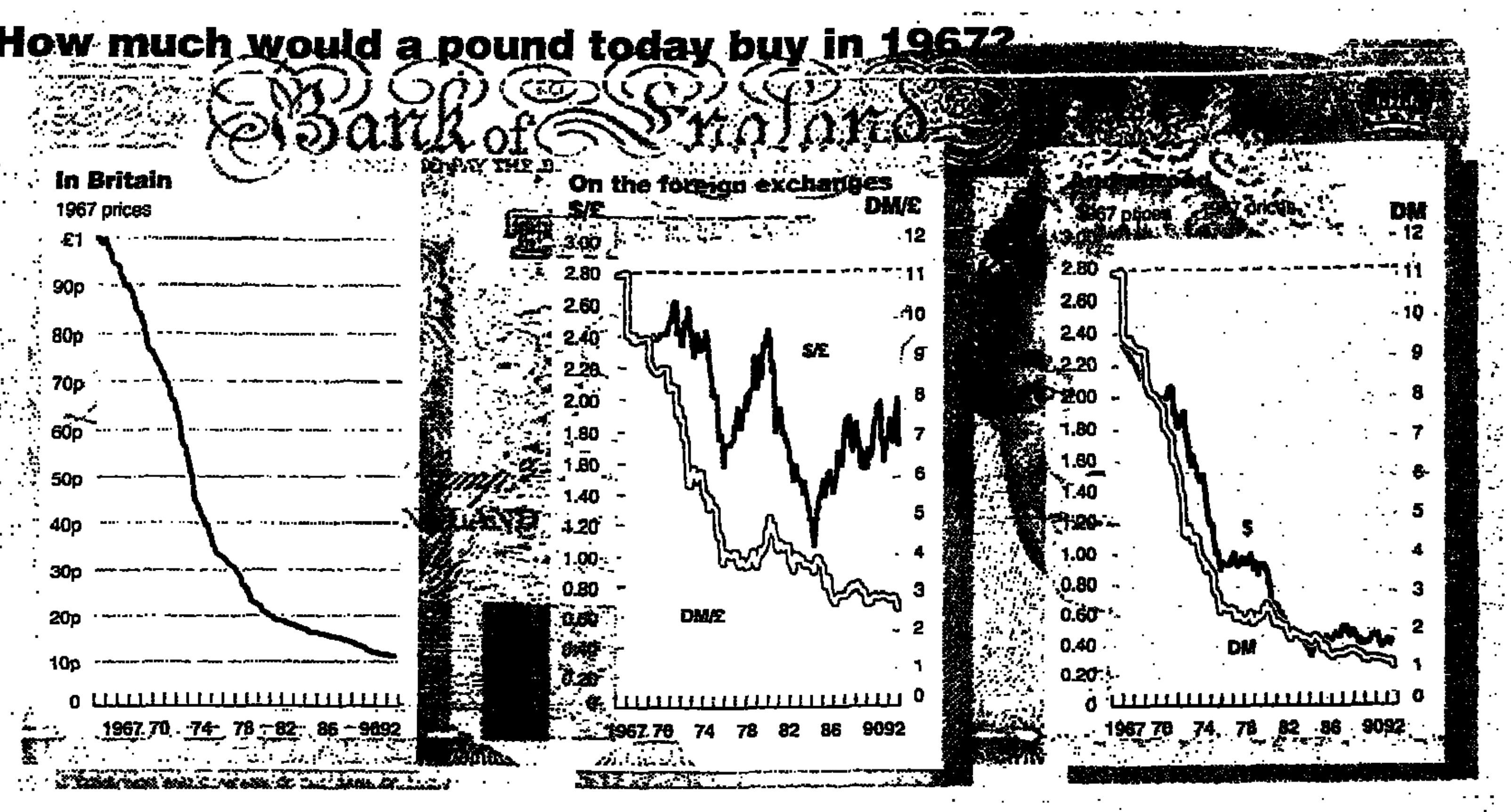
The fall in the international purchasing power of sterling has been almost as severe. A pound would buy $2.80 worth of goods in the US at the beginning of 1967. Since then the pound has depreciated by 36 per cent against the dollar to $1.78, while the fall in the dollar's domestic purchasing power is 77 per cent. As a result, the US purchasing power of a 1967 pound has fallen by 85 per cent.

The fall of the purchasing power of a UK pound in Germany has been sharper. Germany has had a slower rate of consumer price inflation – the domestic purchasing power of a D-Mark has fallen by 59 per cent since 1967 – but the depreciation of the value of sterling has been 76.2 per cent. So the overall purchasing power of a pound in Germany has fallen by 90 per cent.

The devaluation of sterling on the foreign exchanges means that the amount of foreign goods that a pound sterling buys has been eroded further. But if the fall in the value of sterling is once more followed by higher UK price inflation, then the gains in competitiveness will also disappear.

One reason for resisting calls for a devaluation was that British manufacturers were not uncompetitive in international markets. But even if a rise in the profitability of exporters is needed, a devaluation might not deliver that.

The government has argued that the beneficial effects of a devaluation tend to disappear within two years as employers and workers increase their wages rather than expand capacity. Will the combination of still high interest rates and rising unemployment dampen these inflationary pressures? If not, then this sterling devaluation will be no different from any other.



Treasury gurus lick wounds

By Peter Marsh, Economics Staff

AFTER this week's bloody and futile battle to defend the pound, the senior officials trying to uphold the currency's value have emerged with plenty of scars but few honours.

Sir Terry Burns, permanent secretary at the Treasury, and Mr Robin Leigh-Pemberton, governor of the Bank of England, held important roles as the government on Wednesday twice lifted interest rates and spent up to £15bn supporting the pound – only to end the day admitting defeat with an effective devaluation.

Sir Terry and Mr Leigh-Pemberton were among a small group who advised Mr Norman Lamont, the chancellor, as he sought to conduct the government's defence strategy from his office in the Treasury.

Other actors in the drama included Mr Andrew Turnbull, Treasury deputy secretary in charge of monetary policy, Mr Alan Budd, Treasury economic adviser, and Mr Eddie George, deputy governor at the Bank and overall supervisor of its market operations.

As the officials yesterday licked their wounds, there was no shortage of people accusing them of having chosen the wrong weapons. Many in the City reckon the government should have put up interest rates much earlier in the effort to defend the pound – perhaps two weeks ago – in an effort to convince the markets of its willingness to bring out the heavy artillery in propping up the currency.

Mr John Shepperd, economist at S.G. Warburg Securities, the investment group, said the initial action of raising interest rates by 2 percentage points at around 11 am on Wednesday looked "messy" and smacked of panic.

Mr Roger Bootle, chief economist at brokers Greenwell Montagu, said: "I don't think anyone with any knowledge of foreign exchange markets would have expected the actions the government took to quieten things down. The Treasury totally underestimated the huge force of the money flowing out of the pound via the currency markets."

One difficulty, according to Mr Bootle, is that the Treasury has few people with a background in financial markets. "Time and again in the past 30 years, we have seen the government crucified by the markets, but the Civil Service insists on filling the top jobs in the Treasury by people who come in with academic backgrounds."

One handicap in recruiting such people with a knowledge of financial markets to the Treasury is the large difference in salaries paid to civil servants compared with people in the City. In recent years, there has been a large flow of people from the Treasury going to work for financial groups, with few going the other way.

According to Mr Richard Jeffrey, head of economics at brokers Charterhouse Tilney, this week's events indicate the Treasury's difficulty in assessing the mood of financial markets, where many saw big obstacles to Britain's maintaining the high interest rates required by membership of the exchange rate mechanism at a time of deep recession.

"The position was looking to many people increasingly untenable," Mr Jeffrey said. "We have seen this week just how distant the Treasury is from the real world."

While such criticisms are commonly made about the Treasury, there are indications that some aspects of Treasury culture are changing. For example, Mr Budd, who came to the Treasury last year from being economic adviser at Barclays Bank and is one of the few Treasury senior mandarins with experience in the financial services sector, has instituted a series of regular meeting with top economists from companies as part of an attempt to find out about economic conditions in industry.

Mr Gerry Grimstone, a former senior Treasury official who is now head of corporate finance at Schroders, the merchant bank, said that in spite of such efforts a culture gap existed between the Treasury and the outside world. "Treasury people are a bit like the inhabitants of a monastery who think they have all the answers. They are the keepers of the faith and the others outside are the infidels."

THE true cost to Britain of its vain battle this week to defend the pound emerged yesterday at about £750m, Peter Marsh writes.

That is the estimate of the amount by which the pounds that the Bank of England bought for D-Marks in its intervention operations on Wednesday dropped in value between the start of trading on that day and the close in London last night.

In a few hectic hours on Wednesday, the Bank bought sterling worth an estimated £15bn for D-Marks from its foreign currency reserves. The operations consumed a large chunk of Britain's $44bn fund of reserves, as well as perhaps a third of the special £7bn foreign currency loan which the Treasury arranged earlier this month as a "war chest" to defend sterling.

Yesterday's estimate of about £15bn in intervention by the Bank – the Bundesbank and the Bank of France also bought sterling worth perhaps a further £5bn – is an increase on the earlier estimate of £9bn.

The huge intervention effort on Wednesday is thought to be the biggest action of this kind by a central bank to defend a currency.

Midlands cheered by prospects for exports

By Paul Cheeseright, Midlands Correspondent

BUSINESS leaders looked at the new world and found it, if not good, at least better than on Tuesday, or last week – or even last month.

Yesterday's meeting of the west Midlands regional council of the Confederation of British Industry pondered the fate of the floating, devalued pound and the government's stricken anti-inflation policy. When participants came out of the council chamber they smiled.

"The meeting was not depressed by any means," said Mr Bryan Townsend, the chairman.

But manufacturers in this traditional manufacturing region are far from jumping for joy. On the domestic market "confidence is low, the state of trade is depressed", according to Mr Townsend. Yet losing the restraints of the exchange rate mechanism means opportunities for exporters have suddenly emerged.

"A year down the road, people may be saying this [the devaluation] was a jolly good thing," said Mr Edward Roberts, chief executive of Heath Springs, a Redditch company which saw orders evaporate in June.

Since the early-1980s recession, west Midlands manufacturers have become much more energetic in export markets. Painful bouts of cost-cutting have made them generally more competitive.

A devalued currency adds an extra competitive margin. Sterling Tubes, the Walsall steel tubemaker, exports 70 per cent of its production. Fighting narrowing margins on an oversupplied market, the company was asking itself, said Mr Bill Good, the managing director, "can we afford to remain in the US? Now we are committed to stay – 10 per cent from two dollars to the pound is worth £0.5m."

For Wagon Industrial, the Telford group with materials handling, engineering and automotive interests, devaluation is "an extremely good thing". Not only will it be able to export more, but also, said Mr John Hudson, the chief executive, "the 50 per cent of group profits coming from overseas subsidiaries will be more valuable when translated into sterling".

The assessment is widely shared. "In terms of us exporting, especially to the US," said Mr Steven Mills, managing director of Bromsgrove Industries, an engineering mini-conglomerate, the lower pound-dollar rate "will be much more conducive".

Although Mr Mills believed "something was needed to give a kick-start to the economy" and that the lower pound "in a perverse way will help", there remain nagging worries about immediate prospects. Treating devaluation as broadly good news, Mr David Probert, chairman of W. Canning, the speciality chemicals and electronics distribution group, added the caveat: "One doesn't know how the funny games have affected business confidence."

Mr Roger Paull, managing director of Stuart Crystal, feared further weakening of consumer confidence. "We've enjoyed a modest level of retail growth this year but a weakening of consumer confidence could reverse that trend."

According to Mr Gilbert Johnston, deputy chairman of J.C. Bamford Excavators, the Staffordshire group, the events of the past few days "are not going to help the construction industry, which is in its worst recession since the war". What JCB would like is what many others want. "It would obviously be better for interest rates to go down substantially to encourage our business and everybody else's," said Mr Johnston.

West Midlands CBI wants the government to bear down on inflation by "continuing to keep public-sector costs down, by keeping wage demands down," said Mr Townsend.

ProShare forced to delay launch

THE formal launch of the ProShare Association, the new movement to encourage wider share ownership, has been postponed because of the financial crisis, Philip Coggan writes. The launch was due to be held next Wednesday.

ProShare was set up in February with financial backing from the Department of Trade and Industry, the Stock Exchange and 20 industrial and commercial companies.

Mr Geoffrey Mandrell, ProShare's chief executive, said "We are ready to launch the association. However, as the UK economy is entering uncharted territory we have to allow the short-term issues to be resolved. As soon as things have quietened down a bit, we will launch the association."

Floating voter thinks again

DON'T mention it, commanded Lyn Martin, as the conversation turned to the events of the past two days.

Lyn and her husband Tony head the FT's family of floating voters. From their home in Solihull, West Midlands, they watched the spring election campaign and then went their different ways in the polling booth. Lyn voted Conservative while Tony voted Liberal Democrat.

Now Lyn is having second thoughts although, she said yesterday, "you can never see what's going to happen."

Sterling left off grid

STERLING is a notable absentee from the statistical grid issued yesterday by the Bank of England showing the new Exchange Rate Mechanism bands.

Although both the Italian lira and sterling were suspended from the ERM, the lira is included in the grid. A Bank official said: "The Italians insisted that they remain in the grid at their old central rate."

A footnote to the grid explains that the Italian monetary authorities are ignoring the bands, in terms of their exchange rate intervention policy, for the time being.

Recovery summit proposed

MR Bill Morris, leader of the TGWU general union, has called for a "summit for recovery" involving government, business and the unions.

He has written to Mr Norman Willis, TUC general secretary, proposing the summit "around a consensus agenda" with a programme for economic recovery.

"We should point out to the prime minister that there is no monopoly on wisdom and that only by united action can we overcome this economic crisis," Mr Morris wrote.

What the economists have to say now:

JIM O'NEILL
Swiss Bank Corporation:

Maastricht is essentially dead; the French are going to vote on something which no longer exists. That means Britain can concentrate on domestic issues. We should let the pound go down to about DM2.50 and cut interest rates. But regaining credibility with the financial markets will be difficult for the government. If Britain re-joined the system too soon we could see things go wrong disastrously once again and the pound could be tipped over the edge. From a political and economic view it would be better to let the pound float.

ROGER BOOTLE
Greenwell Montagu:

The government should abandon any idea of returning to the ERM. It should adopt a policy of setting interest rates with regard to domestic economic conditions and let the exchange rate do what it wants. An appropriate level for interest rates would be 6 per cent. At this level I don't think the pound would be dramatically lower and the inflationary consequences of this strategy would be comparatively minor. I cannot think of circumstances better suited to a successful devaluation than the ones we have at the moment.

GERRY HOLTHAM
Shearson Lehman:

A cut in interest rates won't necessarily lead to higher growth if the US experience is anything to go by. High household debt and a weak housing market will still act as a constraint. The only way the government can do anything about the situation is either to allow inflation to rise – not really a viable option – or to take over some of the private debt and not to worry about the PSBR.

Ultimately the government has to wait until Sunday to see what happens and then try to construct a sane European macro-economic policy.

PAUL CHERTKOW
UBS Phillips and Drew:

The main aim for Britain is to stimulate recovery under an independent Bank of England. The government should cut interest rates immediately to 9 per cent and then by further steps to 7 per cent by the end of the year.

That would mean sterling floating to around DM2.50, a level which would see investor support for the currency because recovery prospects would look an awful lot better.

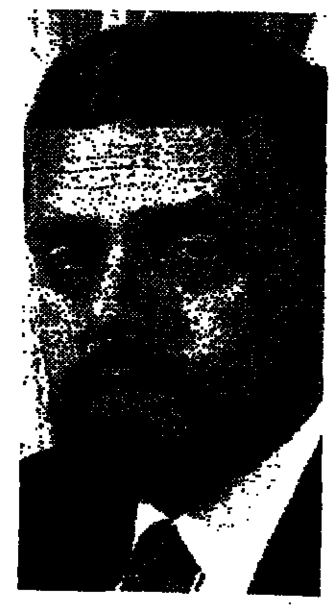
As for the ERM the whole system seems to be in danger of collapse. There is no certainty about the system any more.

PETER SPENCER
Kleinworts:

I would not touch the ERM with a bargepole unless the French vote very positively for economic and monetary union. I would go for a system of free floating exchange rates with monetary targets based on a wighted average of different monetary aggregates. Whatever we do, it will be very difficult for us to duck Germany's high interest rates, so I doubt that interest rates will come down quickly. I think very strong inflationary impulses have been unleashed by this devaluation. If we cut rates the pound would go into free fall.

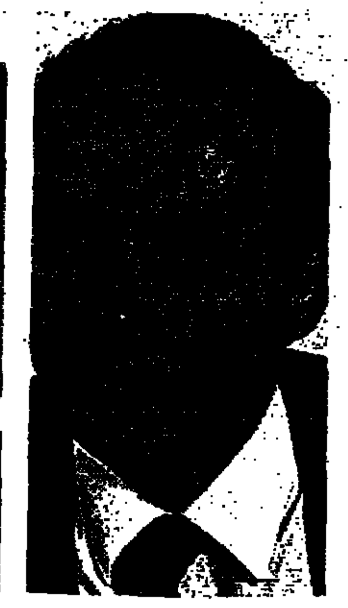
STEVE HANNAH
IBJ International:

Nobody is going to have confidence in the government's economic policy in the years to come and the premium we will have to pay on sterling as a result will be very high. But having blown its credibility the government might as well make the most of the situation while it can. It should introduce a balanced package of lower interest rates, but at the same time tighten fiscal policy. The government can't be seen to be taking all the benefits without accepting some disciplines. Otherwise we could become the banana economy of Europe.



GAVYN DAVIES
Goldman Sachs

It will be very difficult to rejoin the system quickly because I think the chances of getting back into the same bind are too great. I think the government will take the opportunity for a breathing space in which to ease policy and get the pound and interest rates lower. They will then wait for a recovery and lower German rates before trying to rejoin. I don't think they are going to push rates below German rates because they won't want to see the pound in free fall. Sterling should settle at around DM2.50-DM2.60 with rates at around 9 per cent.



DAVID CURRIE
London Business School:

The government was right to pursue the policy of European convergence within the ERM to attain low inflation and a central role in Europe. The failure of this policy following tactical errors leaves its European strategy in disarray. The government will be tempted to resume that policy but that may well be a mistake.

The severe dent to credibility means that a return to ERM membership even at current levels of the pound will mean continued high UK interest rates, holding back economic recovery.

US trade deficit of $7.8bn largest for nearly two years

By Michael Prowse in Washington

A SHARP fall in exports in July led to the largest US trade deficit for nearly two years, the Commerce Department said yesterday.

The deficit rose to $7.8bn compared with a shortfall of $6.7bn in June.

This was the biggest deficit since November 1990 and a worrying indication of the difficulty the US is having in balancing its external accounts, despite a prolonged slowdown in the country's domestic economy.

The higher deficit mainly reflected a sharp fall in exports which declined 2.2 per cent to $37.3bn.

US sales to depressed European markets were down sharply.

However, analysts noted that a big fall in exports of civilian aircraft - a volatile component of the figures on a monthly basis - accounted for much of the overall decline. Sales of aircraft had surged in June.

US imports fell 0.6 per cent to $45.2bn, providing more evidence of the weakness of the US economic recovery this summer. The trade deficit for the first seven months of this year was $43.4bn against $36.1bn last year, indicating that several years of progress in reducing the US external deficit has ground to a halt.

The poor trade figures are the latest in a series of economic jolts for the Bush administration.

Figures earlier this week showed a 0.5 per cent decline in both retail sales and industrial production in August. Consumer confidence and industrial orders have also fallen recently.

The consensus view is still that the US economy is growing sluggishly at about the 1.4 per cent annual rate registered in the second quarter. However, some forecasters are growing more bearish.

"The latest indicators point towards a triple dip for the economy," said Mr Ed Yardeni and Ms Debbie Johnson, economists at C J Lawrence, the New York broker. They predict "little or no growth" in the current quarter.

Separate figures yesterday for state unemployment insurance claims also pointed to stagnant economic conditions in the approach to November's presidential election.

CLEARING THE FIELDS: Workers clear a field of debris left by Hurricane Andrew near Homestead, Florida. Farmers are starting to plant new crops after more than three weeks of work to repair damage caused by the storm, which swept through on August 24

Clinton harried over draft issue

By Jurek Martin, US Editor, in Washington

PRESIDENT George Bush's re-election campaign yesterday increased the virulence of its attacks on Mr Bill Clinton, the Democratic candidate, for having avoided the military draft 23 years ago.

Mr Bush's team, confronted by a fistful of polls showing the challenger consolidating his lead, cited in evidence a document published in the very conservative Washington Times newspaper yesterday and written by the former commander of a reserve unit associated with the University of Arkansas.

Mr Clinton had communicated with the man in 1969 about his draft status.

In the document, dated ten days ago, Lt-Col Eugene Holmes wrote that he believed Mr Clinton had "purposely deceived me" by using the possibility of joining the reserves "as a ploy to work with the draft board and delay his induction and get a new draft classification."

Questioning the candidate's "patriotism and integrity," Lt-Col Holmes warned of "the imminent danger of a draft-dodger becoming US commander-in-chief." He concluded by saying that, because of ill-health, he would answer no more questions on the matter.

Mr Marlin Fitzwater, White House spokesman, said the document – published in a newspaper deeply opposed to Mr Clinton and, though the spokesman denied it, possibly furnished by the Bush campaign – went to "the heart of why Bill Clinton should not be president of the United States."

This week, the draft issue has been the principal focus of what has sometimes seemed an increasingly desperate Bush re-election strategy. There is little hard evidence yet that it is paying dividends. The latest national poll, out yesterday, for the Wall Street Journal/NBC News, has Mr Clinton ahead 51:41 per cent, little changed from its previous survey but a smaller margin than in most other surveys this week.

It found that doubts about Mr Clinton's character, though higher than reservations about Mr Bush's, have not increased at all recently. Only about half those polled were satisfied with his explanations about the draft, but a higher percentage was unhappy with Mr Bush's denial of involvement in the Iran-contra scandals.

A New York Times poll of Florida, the fourth largest state, found Mr Clinton six points ahead, contradicting another poll published on Wednesday and giving Mr Bush a seven-point margin in what has long been a Republican stronghold in presidential elections.

All the polls suggest that concerns about the economy transcend by far interest in the draft question and in the Republican emphasis on traditional family values.

This latter point has also placed Mr Bush on the spot. He was expected yesterday to veto the recently passed "family leave" bill, requiring companies with more than 50 employees to allow absence from work on compassionate and other personal grounds without penalty.

He will soften this opposition by proposing tax credits for companies to achieve the same end.

Saudi Arabia in political reform move

By Mark Nicholson, Middle East Correspondent

KING FAHD, the Saudi Arabian ruler, has given a further important nudge to a process of political reforms he began more than six months ago by appointing the speaker for a proposed new Consultative Council.

The King yesterday named Sheikh Mohammed bin Ibrahim bin Jubeir, at present the Kingdom's justice minister, as speaker to the 60-member council which was announced, along with the promulgation of a new Basic Law for Saudi Arabia, on March 1.

Mr Abdallah bin Mohammed al Sheikh is to replace Sheikh bin Jabeir in the justice ministry.

Other members of the council, which will for the first time give non-royals a say in running the affairs of Saudi Arabia, have yet to be named. However, at least some of the 60 are understood already to have been selected.

Sheikh bin Jubeir is an expert in Islamic law and held the post of chairman of the Grievances Council, a special court designed to expedite solution of legal, contractual and financial disputes. He also helped draft the new Sharia-based Basic Law.

A consultative council was originally promised more than 20 years ago by the late King Feisal and the pledge was fulfilled only this year by King Fahd.

The new body will have no lawmaking teeth, but would have the ability of summoning and questioning ministers, and would be able to hand legislation back to the King for review.

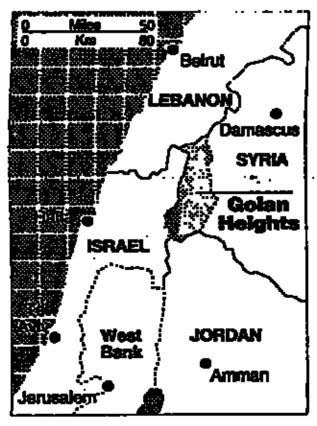
No date has been set for the full constitution of the new council, progress towards which is expected to be unhurried.

Israel and Syria jockey for position over the Golan

Hugh Carnegy on the area's strategic importance

YOU don't have to be any sort of military expert to see what excites both Israel and Syria about the Golan Heights, the bone of contention between the two enemies at the Middle East peace talks in Washington.

From the top of one of a string of volcanic outcrops that stand like sentinels along the Israeli-held side of the ceasefire line, there is a commanding panorama over the Syrian town of Kunetra across open plains sweeping 60 km north-eastwards to Damascus. An Israeli tank could reach the capital in a couple of hours, a most unsettling thought for Syria's leaders.



Equally, the heights form an imposing physical barrier guarding Israel's north-eastern flank. Once down the western escarpment of the Golan, the way is clear to control vital water resources of the Sea of Galilee and Jordan River, and to run quickly across Galilee to the port of Haifa.

Israel has occupied the Golan since capturing them from Syria in the 1967 Six Day War. It nearly lost them to a Syrian tank assault in 1973, but recovered and vowed never to relinquish its control.

Now, however, Syria's willingness to negotiate with Israel has posed an unprecedented challenge to the hitherto unyielding Israeli determination, in the words of Prime Minister Yitzhak Rabin, "never to go down from the Golan Heights." Before the latest round of peace talks now going on in Washington, Mr Rabin himself caused uproar at home by saying it was clear that peace with Syria would require "some sort of territorial compromise" over the Golan.

Syrian officials yesterday said two-and-a-half hours of talks with Israel on the Golan Heights issue had failed to make progress and that negotiations were near deadlock, write our Middle East staff.

Mr Mouwafak al-Allaf, chief Syrian delegate to the talks, said there was "no progress whatsoever" in yesterday's talks, adding that he feared the Israeli delegation "did not come here with any authority to talk about peace and talk about all the important elements and issues."

At the moment, Israel and Syria are only at the stage of negotiating a joint statement of principles that would lead on to dealing with the central issue of the Golan. But Mr Rabin will then have to reveal what compromise he has in mind. So far, he has given no indication that he would concede the long-standing Syrian demand that Israel withdraw from the entire territory.

However, unlike the other occupied territories of the West Bank and the Gaza Strip, there is no strong ideological argument among Israelis for holding on to the Golan. Even most of the right-wing and religious Israeli nationalists who have settled in the West Bank and Gaza do not regard the heights as part of the biblical Land of Israel, or Eretz Israel, which must never be relinquished on ideological grounds.

In fact, most of the 12,000 Jewish settlers in the Golan voted for Mr Rabin's Labour party or its left-liberal allies in the June election. Most are concerned that Israel should not give up the Golan and are organising a "peace with the Golan" campaign.

Mr Rabin has publicly floated the idea of acknowledging Syrian sovereignty over the Golan on a lease-back basis allowing Israelis to stay, but the Syrians have dismissed it.

The key issue remains that of military security.

"Among serious Israeli military analysts there remains a consensus that the Golan comprises vital strategic depth for Israel," says Mr Joseph Alpher, deputy head of Tel Aviv University's Jaffee Centre for Strategic Studies. "Even in the missile age, it is crucial to the defence of northern Israel."

But Mr Alpher suggests this does not imply that Israel must maintain a physical presence on the heights in the form of troops and tanks. He says the emphasis should be on enlarging the strategic depth of the Golan area by the establishment of a big demilitarised zone covering the heights and surrounding territory.

"In terms of what the real security needs are, this is the real issue," says Mr Alpher.

Russians set for doubling in the price of oil

By John Lloyd in Moscow

PRICES for oil on the Russian domestic market will double in the next few days following the signing of a decree by Mr Boris Yeltsin, in an attempt to provide increased income to the hard-pressed oil producers.

Mr Alexei Ulukayev, the government's economic adviser, said yesterday after a meeting of the Russian cabinet that the move would add about 20-25 per cent to annual inflation. Mr Seregei Vassiliev, head of the Centre for Economic Reform, said earlier this week that inflation was presently running at more than 20 per cent a month.

The price rise would bring the price of oil - presently trading at between Rbs1,800 and Rbs2,200 a tonne - up to Rbs4,000-Rbs5,000. This would mean fixing the state price at the price presently obtained in the oil exchanges.

Coal prices are also expected to rise by 30 per cent - an increase largely caused by the government's agreement to pay increased wages to the industrially powerful miners.

Production of oil, Russia's main hard currency export, is forecast to fall again this year from last year's levels of 460m tonnes to 395m tonnes. Mr Yegor Gaidar, the acting prime minister, said that the lack of investment in the industry would mean a further 50m tonne fall in 1993.

However, the need to provide extra funds to the oil sector means a further squeeze on consumers, already experiencing a sharp drop in living standards.

Mr Ulukayev sought to reassure the public by saying that gas and electricity prices would not go up, and that supplies of oil for heating during the coming winter were higher than the previous year.

Further evidence of the deepening crisis in the government's finances came yesterday from Mr Victor Gerashchenko, the acting head of the Russian central bank, who told the Itar-Tass news service that the government had received only 40 per cent of its planned income in the first eight months of the year.

He said: "It's possible we will be forced to stop spending as in the budget and limit ourselves to the money we receive." One recent estimate of the budget deficit stands at Rbs950bn.

Mr Vassiliev said that tax revenues were not coming in at the rate planned, while expected revenues from privatisation are running at less than a quarter of the levels planned. However, he placed much of the blame for the gathering financial crisis on Mr Gerashchenko, and on his policy of granting credits to enterprises and other former Soviet republics.

Western creditor nations should be able to reach an agreement on rescheduling Russia's external debt by the end of this month, or at any rate early in October, a senior US official said yesterday, writes George Graham in Washington.

Mr David Mulford, US treasury under-secretary in charge of international affairs, said Russian debt would be discussed at tomorrow's meeting of finance ministers of the Group of Seven, with the hope of settling the framework for a rescheduling by the Paris Club of creditor countries. "We hope to be able to do a Paris Club by the end of this month, or if not then, very shortly thereafter," he said.

■ Preparations are now being made for the first state visit to Britain by Mr Boris Yeltsin, the Russian president.

Mr Yeltsin is keen to undertake the visit, which is planned for November 9-11, though a final decision has not yet been taken by the Russian side and British officials yesterday would not confirm that the visit would definitely take place.

However, plans are being finalised for the trip which would combine a visit to the Queen, a banquet in the City's Guildhall, with meetings with the prime minister and senior ministers.

The visit is timed to coincide with Britain's turn in the chair of the European Community, though the trip will also focus on bilateral issues between the two countries.

Mr Michael Heseltine, the industry secretary, will visit Moscow at the end of this month with British business leaders in order to explore the possibilities of increased commercial contacts.

Mrs Gillian Shepherd, the employment secretary, has just completed a working visit in which she discussed UK aid to the fledgling and under-funded Russian employment service with Russian ministers.

Bosnian talks set sights on the long haul

By Frances Williams in Geneva

TALKS on Bosnia-Hercegovina's future open in Geneva today in an attempt to formulate a lasting political settlement and allow refugees to return home. However, the talks have no time limit and no agenda other than some basic principles laid down at the London Conference on the former Yugoslavia last month.

Mr Martti Ahtisaari, head of Finland's foreign service called in by the United Nations, will chair the closed-door negotiations involving representatives of the mainly Moslem Bosnian government and the Serb and Croatian factions. UN officials said yesterday they still expected all three sides to turn up, despite another threat from Mr Alija Izetbegovic, the Bosnian president, to boycott the talks while Bosnian Serb forces continue air attacks against government-held towns.

Leaders of the three factions last week promised Mr Cyrus Vance and Lord Owen, co-chairmen of the joint UN/EC Geneva conference on former Yugoslavia, that they would attach no preconditions to attending the talks. Earlier this week Mr Izetbegovic withdrew a similar threat, agreeing to send Mr Haris Silajdzic, Bosnian foreign minister. The Serb leader, Mr Radovan Karadzic, his deputy, Mr Nikola Koljevic, and the Croat leader, Mr Mate Boban, will also be in Geneva.

The London conference stipulated that any long-term Bosnian settlement must entail respect for existing borders, unless changed by mutual agreement, the return of territory seized by force, the right of refugees to return home and protection for minorities. With the EC's "cantonisation" plan now off the agenda, Mr Vance and Lord Owen have given Mr Ahtisaari a free hand to broker any political solution compatible with the principles of the London conference. But officials warn that the talks, if they do not break down, are likely to be prolonged.

Mrs Sadako Ogata, UN High Commissioner for Refugees, will meet representatives of the three Bosnian factions in Geneva today, in the hope of securing assurances on the safety of relief flights into Sarajevo to enable the airlift to restart. Suspension of the airlift a fortnight ago, after an Italian cargo aircraft was downed by a missile, has left the Bosnian capital short of essential supplies and prevented the planned build-up of winter stockpiles for up to 1m people in central and southern Bosnia.

Mr Ron Redmond, a UNHCR spokesman, said Mrs Ogata hoped to be able to recommend a restart of the air bridge later today; flights could resume this weekend if donor-governments agreed.

Panic feels pressure of diehards

Serb nationalists are becoming more radical, writes **Judy Dempsey**

ANOTHER confidence vote is being threatened against the federal Yugoslav prime minister, Mr Milan Panic, in a move which could further weaken his already fragile position in the federation.

The threat came from senior nationalist members of Serbia's ruling Socialist party after Mr Panic yesterday suggested to his cabinet that the smaller Yugoslavia lodge a fresh application for membership of the United Nations.

Mr Panic earlier this week received a commitment from both Moscow and Peking that they would support the application. But Serbia's Socialist party argues that Yugoslavia, which consists of Serbia and Montenegro, has an automatic right to the seat since it is the legal successor of the former Yugoslavia.

Yesterday, UN and European Community diplomats said the new Yugoslavia, as yet, has not the right to claim that status. Mr Borisav Jovic, an ardent critic of Mr Panic and a close supporter of Serbian president, Mr Slobodan Milosevic, said the prime minister, by discussing the UN issue with the Yugoslav government and not the federal parliament, was bypassing his powers.

But western diplomats yesterday said this was a pretext for further undermining Mr Panic, who is viewed as one of the few Serb politicians with whom the UN and the EC can negotiate. "This is precisely the danger. We cannot make Panic into another Gorbachev - with lots of international support, but no domestic backing," an EC diplomat said. "The west should help Panic by lifting the sanctions," said one of Mr Panic's advisers.

The UN remains determined not to lift the sanctions. "If the sanctions are not lifted, then Panic might fall," his adviser added, conceding that Mr Milosevic could gain either way.

"This is Balkan politics. If the sanctions are lifted, Milosevic can claim victory by saying his firm stance showed the west that Serbia had a case all along. If they are not, then Milosevic can kick Panic out," another adviser to the prime minister explained.

He added that the west should impose sanctions on Croatia, since it has seized a swathe of territory in Bosnia-Hercegovina, undermining the UN. Public support remains dogged for Mr Milosevic. "To put it simply. If the west wants Milosevic out, we will support Milosevic. We don't want to be dictated to by the west," said Mr Jovan Zivanovic, a car mechanic.

Panic: He needs to increase his personal following in Belgrade

Austria promises to reopen hostels

By Ian Rodger in Vienna

CARITAS, the Roman Catholic charitable agency, says it has been assured by the mayor of Vienna that the city will reopen its hostels to Bosnian refugees within a few days.

Mr Helmut Schuler, director of Caritas in Austria, said he accepted the city's decision last Friday to close its crowded hostels temporarily. Attempts were being made to send more refugees to provincial cities and to find suitable winter accommodation for many of those already in Vienna.

Mr Schuler feared that some politicians would use the refugee-related troubles in Germany as an excuse to prolong the closure. If so, Caritas would continue to put pressure on the government. "It is impossible to say that we cannot accept real refugees," he said.

He pointed out that the situation in Austria was not comparable to that in Germany. Half the 50,000 Bosnian refugees in Austria were staying with friends or relatives, and another 25 per cent were in the homes of private citizens.

Bosnian refugees arriving in Vienna now faced a "confused" situation". The city's hostels were turning them away but charitable organisations were trying to find shelter for everyone.

Mr Schuler was critical of other western European countries for not taking more refugees.

■ The Danish minority government faced a critical situation in the Folketing last night, where it appeared to be in danger of defeat over a proposal to send just under 200 Danish soldiers to the former Yugoslavia to help protect UN food convoys, writes Hilary Barnes in Copenhagen.

The opposition Social Democratic party was insisting that the government could only send volunteers, a restriction which Mr Uffe Ellemann-Jensen, foreign minister in the Conservative-Liberal minority government, described as "totally unacceptable".

The parties were last night trying to find a formula which could satisfy both sides, but if these efforts fail, a combination of the Social Democratic party, the Radical party and the left-wing Socialist People's party was prepared to defeat the government.

The concluding debate on the government proposal was due to start late last night, but Folketing officials said that in view of the critical situation, the debate could be postponed until today.

Survey points to top read in Europe

By Gary Mead, Marketing Correspondent

THE fifth Pan European Survey (PES), the largest survey of the reading habits of professional and business executives from 16 west European countries, publicly available today , shows that National Geographic magazine is by far the most popular read from a basket of 380 newspapers and magazines, including 19 international titles.

The survey questioned 8,000 men and women - selected from an initial sample of 26,000 - aged between 25 and 64, who satisfied at least one of the following criteria on an annual basis: a minimum gross personal income of £22,000; six or more business trips by air; director of an establishment with 25 or more employees; or possessed a higher degree.

Another common factor was that four out of five use the English language.

Sponsored by The Economist, Financial Times, International Herald Tribune, Newsweek, Scientific American and Time magazine, the study thus claims to have tapped into the reading preferences of the 5.7m people who fall into those categories.

Among the findings of the study are:

- International publications have increased their share of this particular readership from 29 per cent in 1981 to 34 per cent today.
- Since the last PES survey in 1988, the Financial Times has expanded its readership to 292,000 from 264,000; the International Herald Tribune has shrunk from 74,000 to 72,000; and the European edition of the Wall Street Journal has almost doubled its readership, from 34,000 to 62,000.
- Over the same period, Time magazine has maintained its leadership position, growing from 261,000 readers in 1988 to 313,000 currently, followed by The Economist, up from 210,000 to 263,000.
- National Geographic leads the readership table of the 19 international publications considered, with 592,000, followed by L'Express (346,000), Time (313,000) and in fourth place the Financial Times.

PES 5, available from Research Services Ltd, Research Services House, Elmgrove Road, Harrow, HA1 2QG, UK. £50.

German right-wing extremists 'no danger'

MR Alexander von Stahl, the German advocate general, asserted that right-wing militant organisations did not represent a danger to Germany despite the wave of attacks against asylum-seekers.

Mr von Stahl said no organisational structure could be detected among the largely young German assailants. Instead, the assaults on foreigners were frequently "locally, spontaneously and often very alcoholically motivated," he suggested.

Mr von Stahl's controversial remarks contradicted persistent indications that right-wing groups in east and west Germany had managed to influence a considerable number of young east German extremists.

German police yesterday arrested seven neo-Nazis and issued arrest warrants for six more after raiding more than 100 homes to crack down on rightist violence.

Heinz Wolf, police chief in the eastern German state of Saxony, said the raids on Wednesday by more than 500 policemen yielded a large haul of illegal weapons and racist pamphlets.

He said the raids were made after investigations into attacks on foreigners by rightist youths, many of them skinheads. Those arrested were accused of breach of the peace, arson and grievous bodily harm.

Youths in the east German port city of Wismar in the state of Mecklenburg-Vorpommern attacked a hostel for asylum-seekers late on Wednesday for the third night in succession. Police took eight persons into temporary custody. Unidentified persons threw a Molotov cocktail against a hostel for asylum-seekers in Zemitz, Mecklenburg-Vorpommern, but guards were able to extinguish the blaze quickly.

The interior ministry yesterday said Romania had agreed to take back its citizens who fail to prove they suffered political persecution at home. The statement said Interior Minister Rudolf Seiters has been seeking agreements with the main countries involved to take back their citizens if they fail to win asylum in Germany.

Until now, rejected refugees were allowed to appeal the decision and in practice remained in Germany for years. Sixty per cent of the 43,000 Romanians who came to Germany from January to the end of August were gypsies but only 0.2 per cent of them have been granted asylum.

France and Italy urge EC to fight mafia

By Andrew Hill in Brussels

FRANCE and Italy will today call for increased co-operation between EC members to fight organised crime in Europe under the banner of the Maastricht treaty.

At a special meeting of interior and justice ministers, the French and Italians will propose the immediate establishment of a working group specialising in the fight against the mafia.

They will also call for harmonisation of criminal law in member states to make international co-operation and crime-busting easier, and acceleration of the establishment of Europol, a pan-European criminal intelligence agency.

The ministers of the 12 are also likely to talk about how to handle the influx of refugees from the former Yugoslav republics, but the meeting will mostly be devoted to crime-fighting in the EC.

Britain, which holds the EC presidency, arranged the extra meeting at the request of the Italian and French justice ministers, following the assassination of Mr Giovanni Falcone and Mr Paolo Borsellino, two anti-mafia judges in Sicily.

The timing is particularly felicitous for the French government, faced with a close vote Sunday on the Maastricht treaty. The spread of organised crime across open EC borders is a spectre raised by No campaigners in France.

"The French were quick to spot that it wouldn't be at all bad if they could demonstrate that when serious things happen in this area, the 12 rally round and do something," said one senior EC official.

As if to underline the point, the Franco-Italian document places great emphasis on the advantages of inter-governmental co-operation under the treaty. "Europeans now have the institutional resources to reinforce co-operation in justice and police matters on the basis of the Maastricht treaty," it says.

Immigration and judicial policy is one of the two "pillars" of the Maastricht treaty in which the influence of the European Commission and the Court of Justice would be limited or non-existent. It would probably survive even if the rest of the agreement fell apart.

- A computer replacing 60m documents will connect customs officers across the Community as of January 1 1993, Reuter adds.

The Customs Information System network, set to go live in October, will allow customs offices to send encoded messages about suspected drug smuggling, fraudulent export certificates and illegal trafficking in arms, endangered species or cultural treasures.

The system is aimed at goods coming from or going to third countries, not those moving within the EC.

In search of a crime rate mechanism

Jimmy Burns and **Robert Graham** on justice ministers' talks about policing the EC

EUROPE in the 1990s is proving easier for the criminal than for the forces of law and order.

That is the disquieting message for the meeting today in Brussels of EC justice ministers, who will discuss the growing threat of organised crime, among other security issues such as extradition and harmonisation of national laws.

The meeting was requested by Italy, which recently has felt most threatened by the increasing power of organised crime and the willingness of the Sicilian mafia to challenge the government.

But the Italians are not alone in ringing alarm bells. Germany's interior ministry recently warned that the planned scrapping of EC border controls at the start of next year, with political changes in eastern Europe, could lead to an upsurge in drug-related crime in Europe.

In London, Mr Douglas Tweddle, chief investigation officer of UK Customs and Excise, also warned that the relaxation of customs controls will widen opportunities for criminality in other spheres such as tax and excise fraud.

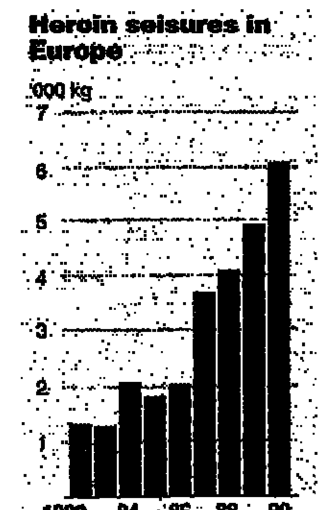
Supporters of Europol, the planned criminal intelligence agency, see it as a symbol of growing co-operation within Europe in the face of a criminal fraternity which, as one senior police officer put it, "does not respect boundaries".

However, Europol continues to generate debate and division about where it should have its permanent offices and about the scope and scale of its future operations. This is a debate that would bring a knowing smile to any Eurosceptic - all to do with issues of sovereignty, accountability and, ultimately, of power.

The initial idea mooted by the Germans last year was that Europol should be based at the German police BKN headquarters at Wiesbaden and should transform itself as soon as possible into a European version of the American FBI.

Wiesbaden is central in Europe and already has sophisticated intelligence systems, but the German idea provoked immediate resistance from other EC members, which considered this would not only concentrate political power in Germany, but also prove impractical in terms of existing national law.

Heroin seisures in Europe



Source: ICPO-Interpol

Britain would prefer that the Europol offices be based on more neutral political soil, either at Strasbourg or next to the Interpol offices at Lyons.

However, some in the community question Interpol's political accountability. The agency serves more than 154 subscribing countries, and the view persists that some of these should be kept well away from sensitive European intelligence.

Italy and the Netherlands have been pressing to have Europol on their territories, while France appears happy with Strasbourg.

EC member states, meanwhile, are far from agreed on what Europol should do, if and when it gets off the ground by its target date, January 1 1993.

Within the UK, senior police officers such as Sir Roger Birch, chief constable of Sussex and chairman of the UK police's international affairs committee, have argued that Europol risks duplication of information.

Also, they say national data protection laws continue to limit the exchange of information that might be useful in tracking international criminals. Meanwhile, the attitude of signatories to arrangements for "hot pursuit" across frontiers and extradition requests is still far from harmonious, often exacerbated by rivalries between police organisations and intelligence agencies.

A basic problem is how increased co-operation in information can be translated, first, into the arrest of criminals and, second, into their conviction under relatively consistent judicial procedures.

International criminals - whose names are known to police, customs officers and intelligence agencies - can hide behind shell companies, nominees and expendable lieutenants. This is why the Italians, in particular, are anxious for the Europeans to accept in law the concept of conviction on the basis of membership of a criminal organisation.

In many European legal systems, such a concept is difficult to establish; even in Italy, courts have been divided. Even so, as crime syndicates become increasingly transnational, it is becoming more urgent to establish criteria mutually acceptable to the EC governments for the *prosecution of* such organisations.

NEWS IN BRIEF

France gets tougher in prisons dispute

THE French government yesterday issued suspension notices against a dozen more striking prison officers in an attempt to end the industrial dispute that has wrought havoc in the prison system, writes Alice Rawsthorn in Paris.

After the breakdown earlier this week of national negotiations with the warders' unions, the government is trying to negotiate on a regional basis. The justice ministry claimed the strike was waning, with 99 of France's 182 jails affected yesterday against 140 on Tuesday.

French prison officers are demanding more staff and better security after a series of attacks by prisoners culminating in the murder of two officers within the past six weeks.

Ukraine struggles to reform

Ukraine's ex-communist government is clinging to the inefficient system of central planning but Russia is unwilling to play by the old rules. The cost is hyper-inflation, writes Chrystia Freeland in Kiev. Ukrainian industrial bosses are churning out unwanted goods and buying raw materials, in particular Russian oil, they cannot afford. With inflation running at close to 30 per cent a month and the Russian central bank charging 80 per cent interest annually, the Ukrainian national bank would now like to raise its interest rates to at least 50 per cent.

Plea on EC travel for students

The European Parliament yesterday urged European Community action to save the Interail card, which allows millions of young people cut-price continental travel every year, Reuter reports from Strasbourg. "We must save the Interail system and the Community must contribute to this," one Euro-MP said during a debate in which plans by the French, Spanish, Italian and Portuguese railways to withdraw from the scheme from next year were condemned.

"Young people need to be able to travel at reasonable prices... Many young people see Interail as one of the most attractive things in the Community," Danish Euro-MP Fru Joanna Ronn said.

Romanian president's fight

President Ion Iliescu of Romania is facing an increasingly stiff task in his campaign for re-election on September 27, according to an opinion poll published yesterday, writes Virginia Marsh in Bucharest. The poll, carried out by IMAS, a local polling company, predicts Mr Iliescu will pick up 26.9 per cent of the vote, 7.1 per cent less than Mr Emil Constantinescu, the candidate of the Democratic Convention (DC), the centre-right coalition of 18 opposition parties.

Fault closes Swedish N-plants

Five of Sweden's 12 nuclear reactors have been closed down because of faults in the emergency cooling systems, the Nuclear Power Inspection Board said yesterday, AP reports from Stockholm. A board statement said the closure represented "a very important decision regarding the security" of the reactors, but that there was no danger of a radioactive leak.

Telephone traffic up 13% last year

By Hugo Dixon

INTERNATIONAL telephone traffic grew by 13 per cent last year, according to a report to be published next week by the London-based International Institute of Communications.

Falling international telephone charges and a rise in the volume of non-business calling across frontiers helped partially to counteract the effect of the world recession. About 35bn minutes of international telephone calls were made during 1991.

The market shares of leading telephone companies grew at widely different rates, reflecting the impact of competition unleashed in some countries in the 1980s.

American Telephone & Telegraph, the largest US carrier, handled 6.6bn minutes of outgoing traffic – up 7.8 per cent compared with 1990. By contrast, traffic handled by its main rivals, MCI and Sprint, grew 35.1 per cent to 1.6bn minutes, and 25.3 per cent to 723m minutes, respectively.

International traffic via British Telecom grew by only 1.9 per cent to 2.2bn minutes. The traffic base of Cable and Wireless, whose Mercury Communications subsidiary is BT's main competitor, grew 28.6 per cent to 1.7bn minutes.

The report provides a measure of the extent of integration among the European Community's economies. Of all international calls made in the EC in 1991, 55 per cent went to other EC countries and 11 per cent to the rest of Europe.

Telegeography 1992; from IIC, Tavistock House South, Tavistock Square, London, WC1H 9LF; £265.

Irangate probe ends

THE long investigation into the Iran-Contra scandal, which rocked Ronald Reagan's presidency and still causes political problems for President George Bush, will end this week, Reuter reports from Washington. No more indictments are expected.

Clinton pressed to seek Nafta changes

By Nancy Dunne in Washington

AN intense debate within the camp of Governor Bill Clinton is likely to delay the response of the Democratic presidential candidate to Republican taunts that he is "waffling" in his support of the North American Free Trade Agreement.

It is reported that the candidate is being urged, by some of his political advisers, to adopt the line of Mr Richard Gephardt, Democratic leader in the House of Representatives. He has said the Nafta must be returned to the negotiating table, to strengthen environmental and labour provisions, or the pact will be rejected in Congress next year.

These advisers are said to be nervously eyeing opinion poll data that show the governor's support soft among blue-collar workers in the key states of Pennsylvania, Ohio and Michigan, who fear their jobs will go south to Mexicans.

They could stay home on election day or cast a protest vote for Mr Ross Perot, the Texas billionaire who has withdrawn from the presidential race but is still on the ballot in some states as an independent candidate.

Mr Clinton is already facing criticism for having endorsed fuel efficiency standards, which the US car industry claims will cost thousands of jobs.

Many of the governor's liberal farm and labour supporters believe the pact must be renegotiated to produce stronger, enforceable job and environmental protection.

His more moderate business backers have been assuring him that the weaknesses in the Nafta's relevant provisions can be rectified by "implementing legislation" written in Congress, and that the pact need not be sent back for further work.

One of the key issues is a US-Mexico cross-border tax on imports, which is opposed by the US administration. Various leading Democrats have suggested the tax would pay for environmental and worker-adjustment programmes. This would be likely to require additional talks with the Mexicans.

There has been close co-ordination between the Clinton campaign and Congressional Democrats, who have strongly rebuked President George Bush for "politicising" the Nafta, which was developed with bi-partisan support.

The pact was sent to Congress on Wednesday so the governor has time to claim he is studying the details.

Although one of his trade specialists said he need not take a position until driven to it by the first presidential campaign debate (if any), others in the campaign expect a decision by Mr Clinton by the end of the month.

SUPPORTING STAR: Bill Clinton matches smiles with actress Whoopi Goldberg at a "Voices for Change" fund-raising event

EC puts 10% duty on Korean chips

By Alan Cane

THE European Commission said yesterday it was imposing a provisional anti-dumping duty of 10.1 per cent on memory chips from manufacturers in South Korea.

This follows a complaint from the European Electronic Component Manufacturers' Association, acting on behalf of Motorola's UK subsidiary, Siemens of Germany and SGS-Thomson of Italy.

Charges were brought against Samsung, Hyundai and Goldstar. The Commission says its two-year-long investigations showed substantial dumping margins varying between 18 per cent and 120 per cent of the EC border price.

The memory chip prices investigated were for DRAMs, volatile memories used in most kinds of electronic equipment including computers and telecommunications systems.

DRAMs are an important technology driver and have significant strategic importance for the European electronics industry.

According to the Commission, Korean imports of DRAMs into the EC rose 23 times between 1986 and 1990, reaching a 25 per cent market share – or 37m megabytes of storage – by 1990. During the period, the Commission said, Korean producers substantially undercut the prices of Community producers.

While European producers will be relieved by the Commission's decision, there is concern that the Commission's guidelines on anti-dumping are out of date and inappropriate to an industry that is evolving rapidly.

With global manufacturing facilities, it can be difficult to determine exactly the country of manufacture.

Reynolds takes stake in Ukraine tobacco factories

By Chrystia Freeland in Kiev

R J REYNOLDS Tobacco International has acquired a controlling interest in two of Ukraine's four tobacco factories and promised to expand production.

RJR hopes that with its 70 per cent interest in the Lviv tobacco factory in western Ukraine and in the Kremenchuh tobacco factory in the south-central area of the country, it will be able to supply more than one-quarter of the 80bn cigarettes Ukraine's 52m people smoke annually.

The deal will make RJR, which already produces cigarettes in St Petersburg, the largest producer in the Commonwealth of Independent States and represents a wider bid by the company to expand into eastern Europe and the former Soviet Union, where smoking is still fashionable.

"It should be recognised that in eastern Europe and the CIS, total cigarette consumption is about 700bn units and represents a major potential market," said Mr Thomas Marsh, RJR's regional president. "I can assure you that RJR is not the only company which has recognised this."

These are tough times for tobacco companies in North America and western Europe, and RJR, which produces two of the 10 best-selling cigarette brands, has been under attack from the non-smoking lobby. Contrast that with the reception RJR executives received from Mr Leonid Krabchuk, the Ukrainian president: "Most people smoke and get great pleasure from smoking," he said. Mr Krabchuk apologetically conceded that he was a non-smoker but hastened to add: "My son is an enthusiastic smoker."

In turn, Mr Marsh praised Mr Krabchuk's commitment to "very rapid movement to a free market" and said that the speed with which the Ukrainian government negotiated the joint venture has encouraged RJR Tobacco's parent company, RJR Nabisco, to invest in food processing in Ukraine.

Mr Serhi Boriak, a part-time economic adviser to the Ukrainian president, who was hired as a consultant by RJR for the deal, said RJR was able to negotiate the agreement so swiftly by avoiding ministerial structures and working directly through the president.

A Ukrainian official said the deal was highly favourable to the American company. He said RJR acquired its stakes in exchange for a $4m investment in new equipment in each factory.

National pride prejudices Kuriles talks

Leyla Boulton and Steven Butler on the row between Russia and Japan

THE granting this week of a 50-year lease to a Hong Kong company to develop part of Shikotan, one of the remote Kurile islands off the Japanese coast, will do nothing to help resolve a territorial dispute which is poisoning relations between Russia and Japan.

The row may escalate if reports are confirmed that an Austrian company might build a golf course on Kunishir, another of the islands.

Both countries have much to lose by failure to settle a dispute that has become mainly a question of national pride and which led to the abrupt cancellation last week of a visit to Japan by President Boris Yeltsin.

Russia has all but lost an opportunity for large-scale economic aid, which Japan has said it will only grant if it gets back the four islands it calls its Northern Territories.

Japan's goal of climbing out of its shell to play a bigger role in world affairs looks impossible if it cannot overcome an obsessive dispute with a close neighbour.

Mr Andrei Kozyrev, the Russian foreign minister, said one positive result of the cancellation of talks was that both sides now had an incentive to think hard about how to break the deadlock.

But after such brusque treatment, the Japanese are finding it difficult to conceal the hurt. A foreign ministry official complained of questions of "national honour" and "injustice done to the Japanese". And Mr Michio Watanabe, the Japanese foreign minister, said of President Yeltsin: "If his official remarks cannot be trusted, I don't know what can." He was responding to Mr Yeltsin's statements that the visit had been called off because of Japanese inflexibility rather than the "domestic problems" cited to Mr Kiichi Miyazawa, Japan's prime minister.

In fact, President Yeltsin appeared to have caved in to nationalist pressure not to give back any territory.

Although the Soviet Union took several pieces of territory from the Japanese in the closing days of the second world war, Tokyo has limited its demands to Iturup, Kunishir, Shikotan and Hobbemai.

This is because despite several exchanges of territories this century, only these islands have always been part of Japan and only their fate has been left to be settled by a post-war agreement.

In 1951, the San Francisco Peace Treaty, signed by Japan and the US but shunned by Stalin, stipulated that Japan renounced all claim on the "Kuriles". The Japanese say this never meant the Northern Territories but the 18 other islands forming the Kurile chain.

But the really weighty argument in favour of Russia returning at least two of the islands is the joint declaration of 1956, where the two sides agreed that Russia would hand over Hobbemai (an uninhabited group of islets) and Shikotan on the signing of a peace treaty. The fate of the others was to be negotiated subsequently.

But while Mr Yeltsin may be willing to reaffirm the 1956 agreement, the issue has been seized on by an unholy alliance of neo-communists and Russian nationalists who accused him of planning a sellout of national interests.

Against this background, Japan's demands for Russian recognition of its sovereignty over all four islands – presented by Tokyo as a concession after initially seeking their immediate handover – were doomed from the start.

Industrial investment falls 10.5% in Japan

By Charles Leadbeater in Tokyo

INVESTMENT in Japanese manufacturing is tumbling under the weight of the recession, according an extensive survey of investment intentions published yesterday by the Japan Development Bank.

The survey of 2,326 large manufacturing companies found that planned investment for the next six months would be 10.5 per cent down on last year and 3.2 per cent lower than the first half of this year.

The bank forecast that investment next year would fall by a further 11.9 per cent as manufacturers retreat from the ambitious spending plans of the late 1980s. The economy's weak state, with manufacturing inventories rising despite falling output and investment, will be confirmed today by figures for the August money supply.

The consensus among Tokyo analysts is that the broad money measure M2 is likely to grow by only 0.2 per cent. However, a minority of economists are predicting the first-ever negative money supply growth.

Meanwhile, the Japan Automobile Manufacturers Association yesterday followed the lead of the electronics industry by significantly downgrading estimates of demand this year.

Mr Yutaka Kume, Nissan chairman and the association's president, said demand for new cars would fall substantially below its earlier projection of growth of 1.1 per cent.

The fall raises the prospect of the car industry joining electronics and steel in calling for government subsidies to help finance the transfer or retraining of workers laid off.

Investment in the two industries is falling fast, according to the Japan Development Bank survey, which found capital spending in electronics likely to be 23.7 per cent down in the next six months, with investment in the car industry likely to fall 13.6 per cent.

Japanese soldiers board a transport ship yesterday on their way to join the UN peace-keeping force in Cambodia

Taiwanese shares dip 6.1% after defaults

TAIWAN'S stock market plunged 6.1 per cent after leading investors defaulted on T$1.7bn (£35.6m) of payments to local brokerages for share purchases, *Reuter reports from Taipei.*

The defaults, disclosed by the stock exchange late on Wednesday, appeared to be linked to the arrest of Mr Oung Ta-ming, a textile tycoon, last week over a $22m stock scandal, Taiwan's biggest.

Brokers said the market plunge could trigger a chain of larger defaults in coming days. "There is a collapse of confidence because Oung is the most important player in the market. It's hard to predict how bad the situation will get," said Mr Hong Chi-ming of Top Soon Portfolio Securities.

The Securities and Exchange Commission said it would investigate the reason for the defaults. Stock exchange officials said as many as eight investors had failed to make payments totalling T$1.7bn to six brokerages.

But another leading player, Mr Lei Po-lung, who was not named among the eight, told newspapers he was responsible for the defaults. Big speculators often use other investors to trade stocks for them. The newspapers quoted Mr Lei as saying he bought stocks on behalf of the Hualon group, which Oung heads, and Hualon then declined to provide money for the purchases.

The stock market's weighted index plummeted 222.83 points to a 20-month low of 3,441.69. The market had already been falling since Mr Oung was arrested last week for failing to make court appearances at his trial.

Two Koreas move on treaty

North and South Korea agreed yesterday on steps to implement a reconciliation treaty they signed last December, **John Burton** reports from Seoul. But differences remain on the issue of inspections of suspected nuclear facilities in North Korea.

Election factor drives trade war

Simon Davies and **Simon Holberton** go behind the US-China dispute

THE HONG Kong business community's interest in an election 13,000km across the Pacific contrasts with its somewhat apathetic response to the planting of the seeds of democracy in its own front yard.

The importance of Hong Kong as a conduit for trade between the US and China is such that the election of a US president can have more impact on the Hong Kong economy than the election of any local politician.

And the breakdown this week of talks between Washington and Beijing, aimed at avoiding the imposition of retaliatory tariffs on a "hit-list" of Chinese goods, has heightened interest in the US election.

At stake is nearly 20 per cent, by value, of China's 1991 exports to the US. Of last year's near US$20bn of sales to the US, US$13.3bn were routed through Hong Kong and an unknown, but presumed large, percentage was made by Hong Kong-owned factories in southern China.

"There is always a political and an economic imperative in trade disputes," says Mr Jim Walker, research director of Crédit Lyonnais Securities. "This dispute is driven by a political imperative: the re-election of George Bush."

Many economists argue that, if the proposed hit-list on US$3.9bn-worth of imports from China were to be applied, there would be far more damage to Hong Kong than to China, which has a rapidly growing domestic market.

The Hong Kong government issued an implicit warning to the US recently that application of the hit-list, which could mean tariffs of up to 100 per cent, would have a knock-on effect of US$4.5bn on Hong Kong's trade.

There are fears the real impact could be worse. China is already threatening to block a similar amount in US imports to China. According Mr Ian MacFarlane, Wardley Investment Services chief economist, this would eradicate a further HK$500m in Hong Kong trade.

The Hong Kong government estimates that the territory would lose 16,000 jobs and 0.7 per cent of gross domestic product as an immediate reaction to the tariffs. The knock-on effect would be more severe.

Wardley claims that the secondary impact – loss of investment confidence, tourism and business related to re-exports – would result in as much as 2 per cent being sliced off GDP in the following year; in 1993, that would mean a loss of about HK$14bn.

Hong Kong is the outlet for 80 per cent of Guangdong province's exports, and about 75 per cent of products manufactured by Hong Kong companies are made in Guangdong.

Given the escalation of the dispute, however, the atmosphere in Hong Kong is surprisingly relaxed: nobody believes the colony will in fact be hit by the full list of trade tariffs against China.

"There is a high probability that Hong Kong will have to brace itself for some bad news, but I don't think it will be as bad as people are now calculating," says Mr MacFarlane. Other economists believe Hong Kong will come out totally unscathed.

First, the US is pushing against a door the Chinese government wants to open. Beijing is well aware that, if it is to achieve its aim of membership of the General Agreement on Tariffs and Trade, its foreign trading regime will have to conform to what Washington wants.

Chinese trade negotiators have already given US negotiators a substantial list of product categories covered by import bans. It has agreed it will not enforce "secret" trade regulations, and will eliminate all import substitution policies.

Second, although the Chinese currency is still officially pegged near Yn5.4 to the dollar, it is trading at nearly Yn7 in the officially-sanctioned "swap" market. In the short term, at least, this sizeable devaluation ought to be a boon to Chinese exports to the US, even if the trade talks fail and tariffs are raised.

Then there is Mr Bush himself. Beijing does not like change and, in the incumbent, it sees a US president who has kept economics and trade separate from human rights. Governor Bill Clinton, the Democratic party's presidential candidate, is an unknown quantity for China. The responsibilities of office may lead a President Clinton to moderate his anti-China rhetoric of the campaign trail, but China will not want to risk that by harming the electoral chances of the only friend it has in Washington.

HK bows to China over finance for new airport

By Simon Holberton in Hong Kong

POLITICAL reality intruded into Hong Kong's plans to build a new airport yesterday, when the colonial government walked away from its previous proposals to fund the project and accepted China's solution.

To placate China, the government will commit HK$40bn (£2.7bn) in new equity to the project – taking the total public sector contribution to the HK$163.7bn project from $HK80.4bn to HK$120.4bn – and in the process virtually eradicating the need for debt.

Mr Chris Patten, governor of Hong Kong, has sanctioned this offer – presented to Beijing on Wednesday – without any guarantee that the Chinese will accept it.

As his officials were quick to point out yesterday, it is a Chinese offer the government had agreed to. But there are enough changes to the Chinese idea – not the least being a doubling of the amount of new equity – for them to cavil.

"It's just a matter of facing reality," said one official. "And we have the money."

The government's acceptance of the Chinese plan – which allows for the use of funds from land sales to be ploughed into the project – underlined a growing concern within the administration about the need to get China's agreement.

A big contract expires in November and costs would rise if it needs to be re-tendered.

For the past six months, colonial officials have been saying that the proposals they presented to China in the spring were the most cost-effective and efficient way to build an airport and connecting railway to serve Hong Kong well into the 21st century.

These initial proposals called on the government to provide two public corporations with only a modest amount of up-front equity – HK$16.6bn – to support a maximum of HK$73bn of debt.

Yesterday the government said it would increase its equity contribution to the airport by $HK25bn and the railway corporation by $HK15bn. This will allow the debt the corporations would have to incur to fall to a maximum of HK$22.9bn.

The reduction in debt goes a long way to answering the concerns of China which – domestic Hong Kong politics aside – has always been alarmed by the level of borrowings the project was expected to carry.

Acceptance of the Chinese offer left some in Hong Kong's financial community feeling slightly queasy. As a banker noted: "It just doesn't make sense. Borrowing costs are low and the financial package as constructed was bankable."

Local politicians also expressed concern about Mr Patten's augmented proposal to the Chinese. Mr Stephen Poon, a conservative, said he had doubts about the equity injection for the airport, given that the old plan was considered "cost-effective".

Mr Lee Wing Tak, the Democrat's spokesman, pointed to the possibility that the increased land sales – 62 hectares in all – needed to raise the equity for the project would have a downward effect on land prices and hence, total government revenue.

But as Mr Lee said, Mr Patten's reply represents a "political compromise rather than economic considerations".

Now all Mr Patten has to do is wait and see if China will accept this victory or ask for more.

Further blow for Canary Wharf

By Vanessa Houlder, Property Correspondent

AMERICAN EXPRESS, the financial services group, has abandoned plans to move to Canary Wharf, the insolvent office project built by Olympia & York in the London Docklands.

The company's lawyers are preparing a termination notice that will cancel its lease for 20 Cabot Square, one of the Canary Wharf buildings. The action stems from Olympia & York's failure to provide the incentives agreed under the lease.

"It is our definite intention to serve the notice because Olympia & York cannot fulfil its contractual obligations," said American Express.

American Express warned the developer in June that it was owed £22m at the time Canary Wharf went into administration on May 28. The debt was related to the fitting-out costs of the Canary Wharf building and indemnities against continuing liability on existing premises.

At the end of June, a Canadian judge temporarily blocked American Express's move to pull out of the project. The judge felt the entire project could be irreparably harmed if American Express was allowed to repudiate its lease. But a Canadian court has now freed American Express to serve its termination notice.

The group has not yet decided on a revised plan for its premises. It had planned to bring its 1,500 staff under one roof at Canary Wharf but may stay for a period in its existing buildings, which mostly have unexpired leases.

Its decision to pull out of Canary Wharf is blow to the project and may increase the likelihood of other tenants cancelling their leases.

Although leases have been signed on 60 per cent of the first phases, only 14 per cent of the tenants are installed. Texaco says talks with the project's administrators concerning its occupancy are going well.

Jobless total jumps 47,000

By Michael Smith, Labour Correspondent

BRITAIN'S ECONOMIC woes mounted yesterday as the government announced that unemployment rose by more than 47,000 last month, double market expectations, to a five year high of 2.8m.

The 47,400 seasonally adjusted increase was the 28th consecutive monthly rise and the largest in one month since January.

Of the total, 1.2m have lost their jobs since unemployment started rising in April 1990.

The August figures are a setback for the government which until July was taking comfort from an apparent slowdown in the growth in jobless numbers.

Employment Department officials were yesterday stressing that firmer evidence was needed for a worsening trend to be confirmed.

They said August could be a quirky month, partly because this year it incorporated five weeks and because of the effect of graduates claiming benefit.

Analysts believe the rise may be partly a result of the general election. Mr James Barty, of Morgan Grenfell, said some companies had waited to see the effect of the result on the economy before shedding labour. They were now putting previous plans into effect.

Meanwhile, another set of Employment Department statistics showed that the jobless figure is considerably higher when calculated by international standards.

The new quarterly Labour Force Survey found that the number of people looking for work in the spring was an average 2.65m, against the 2.61m benefit claimants counted as jobless in the monthly jobless total for May.

Mr Michael Forsyth, employment minister, said he was concerned about the level of unemployment and the government was reviewing the range of measures available to those without work.

Ms Joyce Quin, shadow employment minister, said the figures showed "yet more evidence of the government's appalling economic mismanagement. We have the fastest rising unemployment in Europe. It is no use blaming the Germans or the French referendum for that."

The new total of 2,807,500 represents 9.9 per cent of the workforce and is the highest since June 1987. Unadjusted unemployment jumped by 71,541 to 2,845,508 in August, 10.1 per cent of the workforce.

Unemployment rose in every region with the largest increase again recorded in the south-east, accounting for 43 per cent of the whole country's monthly increase. The south-east has only 30 per cent of the country's workforce.

The Unemployment Unit pressure group said the underlying trend in unemployment was rising.

This month and last had not been affected by special seasonal factors like college graduates or school leavers, it said.

● HOPES that British industry might be recovering from the recession were dashed yesterday by news that manufacturing output was unchanged in July.

Official figures showed that the output of manufactured goods in the three months to the end of July was flat compared with the previous three months and 0.9 per cent lower than the same period a year ago. In July, the level of output was the same as in June.

LIB DEM CONFERENCE

Centre party leader turns on Major

By Alison Smith

A SUSTAINED onslaught on Mr John Major for failing to give a lead to the nation and to the international community was the theme of Mr Paddy Ashdown's rallying speech to the Liberal Democrats yesterday as the party ended its annual conference.

His attack, which won him a standing ovation, was coupled with a warning that the government's credibility had been so undermined by its mishandling of the economic crisis that from now onwards it was "on borrowed time".

The Liberal Democrat leader, who has previously expressed praise for some of the actions Mr Major has taken since achieving power, excoriated the prime minister as someone whose pledges were worthless, and who responded to the crisis by pretending it was not there.

He called on Mr Major to put it beyond doubt that the UK intended to return to the exchange rate mechanism; and to enable the Bank of England to start acting as an independent central bank.

On the Liberal Democrats'

Paddy Ashdown acknowledges a standing ovation from the party faithful assembled in Harrogate

strategy, which has been the subject most discussed at the conference in Harrogate this week, Mr Ashdown applauded the decision on Wednesday which allows for dialogue and some joint action with members of other parties, saying: "It is the role of our party to lead the process of working with others to assure the country's future".

While his speech pledged conditional support for Mr Major over the economic crisis and over Maastricht, the realities of any likely co-operation were reflected in his making only a light attack on Labour, for joining in the government's "summer slumber".

Britain in brief

Report on bank failure to go public

THE long-awaited report into the £42m collapse of the Savings and Investment Bank on the Isle of Man 10 years ago can now be published, a judge ruled yesterday.

The 500-page Chadwick report into the bank's crash was shelved until the trial of two of its senior executives on fraud charges had been completed.

The report is likely further to embarrass the island's government over the past standards of regulation of its offshore financial industry. Publication is expected to open the way for ex-gratia payments to SIB depositors.

The government hopes that will enable the island – which now has one of the toughest regulatory regimes in the world – to put the affair behind it.

Publication is expected on Tuesday after deletions ordered yesterday by Deemster John Corrin, the Manx High Court's senior judge. He said the deletions were minor and would not affect the thrust of the report.

Car output down 7.8%

UK car production in August fell by 7.8 per cent from the same month a year ago according to figures released by the Society of Motor Manufacturers and Traders and the Central Statistical Office.

Car output in August declined to 52,943 from 57,388 a year ago.

In the first eight months of the year, however, output was virtually unchanged at 858,204, a marginal 0.5 per cent rise from the 853,769 achieved in the corresponding period a year ago.

UK car output has performed relatively well during the recession with much higher production for export markets largely making up for lower output for the home market.

Production fell by only 4.6 per cent from the peak of 1.3m in 1989 to 1.24m in 1991. In the same period UK new car sales fell by 30.9 per cent from 2.3m in 1989 to 1.59m.

The share of output for export markets jumped from 21.6 per cent in 1989 to 48.9 per cent in 1991.

Bupa boss seeks links

Britain's private health sector needs to develop a much better understanding with the medical profession, Mr Peter Jacobs, chief executive of Bupa, the biggest private provider, said yesterday.

"In some quarters the perception is one of warfare – a struggle on the part of the consultants to keep their fees as high as possible and of insurers to keep costs down," he told a Bupa conference in London.

Fees charged by doctors for private medical treatment were last week referred to the Monopolies and Mergers Commission.

An explosion in treatment costs, said Mr Jacobs, was overhanging both the public and private sectors. This arose from growing public expectations, the ageing of the population and technological developments. While Bupa did not seek to become involved in clinical judgments in individual cases, it was examining ways of establishing and monitoring best practice and avoiding wasteful use of resources.

"In doing so we will take into account the legitimate interests of all the parties involved – the hospitals, insurers and medical profession." But there must be mutual understanding that established standards of treatment would be followed in the majority of cases.

Growth in self-employed

Both the UK and Germany have experienced a substantial growth in self-employment but the increase has been most dynamic in the UK according to a report from the Anglo-German Foundation for the Study of Industrial Society.

The report compared the phenomenon of self-employment in both countries and examines common characteristics and differences.

In detailing the more favourable influences in the UK the report said the economic and policy climate in the UK promoted business start-ups, while that in Germany was more favourable to maintaining the existing self-employed.

The authors concluded that its increasing importance as a component of the labour market indicated a growing need for policy-makers to understand self-employment better - what factors influenced it and its implications for the functioning of the labour market and the economic and social welfare of the workforce.

Scargill fears pit closures

Mr Arthur Scargill, the miners president, claimed to have obtained confidential documents showing that British Coal planned to close up to 30 collieries - with the loss of more than 25,000 jobs.

The detailed list allegedly shows three pits will close in the North East, 11 in Yorkshire, nine in Nottinghamshire, two in Derbyshire, two in the Midlands, two in south Wales and one in Lancashire. A covering letter dated September 1, 1992, accompanied the pit hit list and was purportedly from Minister for Industry Tim Sainsbury addressed to Chief Secretary to the Treasury Michael Portillo.

Employees on pension boards

Three quarters of major company pension schemes have workforce representatives on the trustee board, according to Incomes Data Services, the independent pay research group.

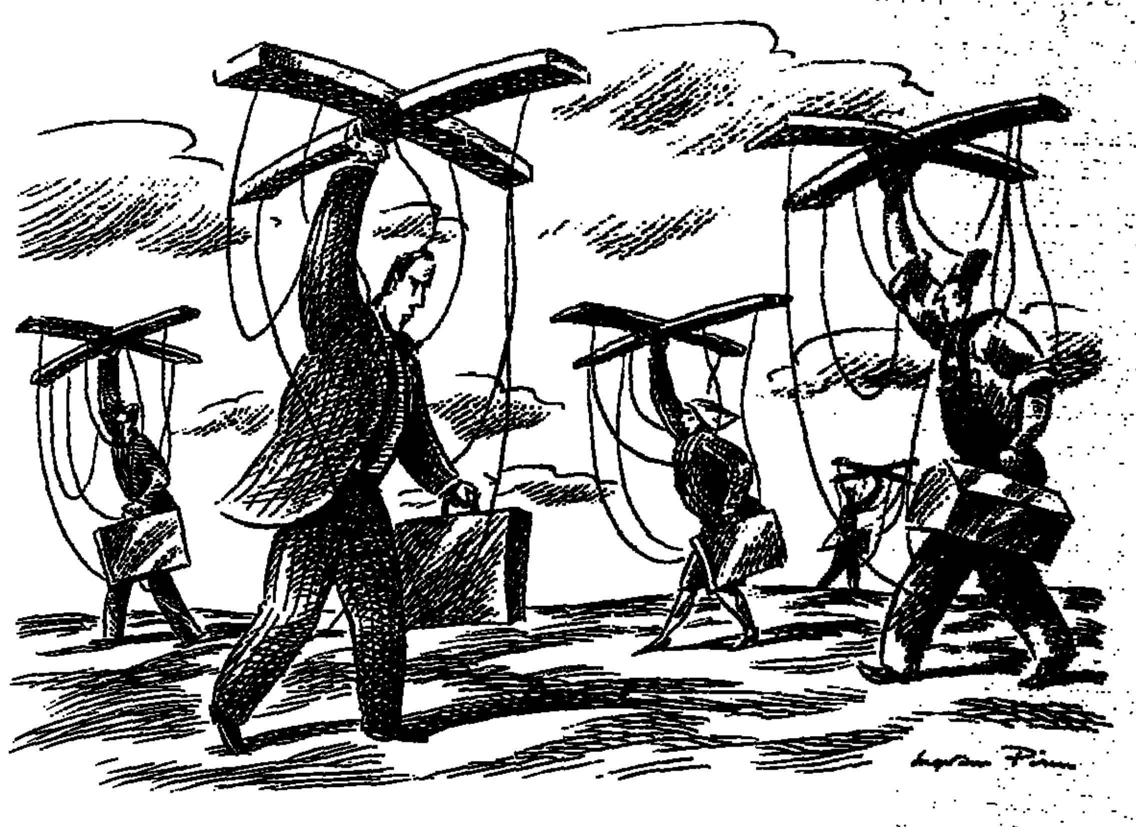
A fifth of pension schemes have at least one pensioner as a trustee, according to the survey of 72 pension schemes published today.

A 1988 government actuaries survey of all private sector occupational pension schemes found that about a third had workforce representatives on their trustee boards.

In the wake of the scandal over pensions at the Maxwell group of companies trade unions, which view pensions as deferred pay, have argued that employees should have majority representation.

Christopher Lorenz examines whether recession has put a brake on the 'empowerment' of middle managers and other staff

Rambo bosses back off



At first sight, the proposition looks paradoxical, even dangerously absurd: that, at the very time when the survival of countless companies is threatened by the worst recession since the 1930s, top executives should be decentralising authority and "empowering" their managers and other employees.

In difficult times in the past, and especially during recessions, most executives have done precisely the opposite. They have slashed spending by reinforcing their own power and that of the centre, taking back some of the authority which in better times they had delegated down the organisation.

Yet, in one form or another, "empowerment" is what countless consultants, and almost every business academic, persist in advising companies to introduce.

Some managements are understandably frightened by the idea: they think it will reduce their authority and render decision-making slow or risky. But in America, PepsiCo, Xerox, General Electric, Ford, General Mills and a myriad of other companies have embraced "empowerment" or the very similar principles of "high-involvement".

In Europe, new practitioners range from BhS, the British retailing group which is now very much on the mend, to Switzerland's Ciba-Geigy, which is becoming less Germanic and hierarchical by the month. A few years ago the Basle-based company began using the term "directed autonomy", which management found less threatening. But now, though it avoids the e-word when it can, it frequently feels obliged to use it to convey what it says is a more far-reaching process and set of attitudes, in which management's role is not just to provide direction, but also autonomy and support, so that the employee feels self-empowered.

Empowerment may be a ghastly word and it is certainly over-used, but the degree of interest in the concept in Europe, particularly the UK, is soaring.

This is demonstrated by a recent surge in consultancy work on and around the subject. A number of strategic and especially accountancy-based consultancies have suffered sliding revenues and staff cutbacks in the past two years. But at Kinsley Lord, a specialist UK firm which sees empowerment as a centrepiece of its work on organisational change, business has boomed since the start of the recession.

The firm's revenues have shot up by a third in the first nine months of the current year, and are expected to rise more sharply still in 1993.

Gemini is a much larger European-American consultancy of 1,200 people which specialises in both strategic and organisational change – including the fashionable "process re-engineering" – but to which empowerment is equally central. Its revenues also grew by a third last year, a rate which is now accelerating. "Harnessing the drive, ingenuity and power of people is central to what we do," says Peter Beilby, its European senior vice-president for marketing.

His colleague, Professor Dean Berry, says: "Companies may not start out with empowerment as a goal. But when they strip levels out, try to compress time-to-market, and redesign other processes, they end up with it. Even with advanced information technology, you can't really run a delayered organisation by 'command and control' methods," he says. "The people route is more timely, simpler, more cost effective, and less risky."

The trend towards greater decentralisation, involvement and authority in many companies – though not always to a degree which merits the grand term "empowerment" – is confirmed by two accountancy-based consultancies. At KPMG, David Bishop, a partner, says that in the UK the recession is causing centralisation only in companies which are *in extremis*.

"In some organisations, it's driving them to decentralise responsibility faster as the best way to simplify business processes and get costs out the door," he reports. This trend is not necessarily in conflict with directives from the top to cut costs, he argues. The key question is whether middle managers and other employees have any choice in the level or the method of cuts.

Vic Luck, head of consulting to commerce and industry in the UK at Coopers & Lybrand, agrees that some companies are pulling financial authorisation back to the centre and that a second, small group is "taking a step backwards" by cutting total quality programmes because they are not giving immediate results. But a third group of companies is continuing with its decentralisation programmes, he says. At the same time, they are cutting expenditure, frequently by giving staff their head in cost reduction programmes.

A remarkable example of this last year was within British Airways Engineering. Alongside a total quality programme introduced with the help of consultants from Kepner-Tregoe, management's targets for expenditure cuts were exceeded almost threefold when aircraft maintenance staff were let loose on the problem; they produced savings of £24m against the target of £8.5m.

John Perkins, BA's chief engineer, now says: "I don't mind admitting I was a Rambo-style manager – I have changed my own style because I have seen that it is just not the most successful way."

His approach contrasts markedly with standard airline management. Most airline campaigns to create greater "customer care", and other such programmes designed to change staff behaviour, tend to empower employees less than they programme them to act in a particular way.

Airline managers who are more conservative than Perkins would argue that this is because most tasks in their industry are done more effectively via control than through empowerment. That is certainly the approach practised by successful, but rather soulless, US airlines such as Delta and American. But it is also why passengers tend to be cynical about staff retraining programmes which provide a superficial gloss of empowerment, yet which do not allow them even to provide the occasional hungry passenger with a second bag of peanuts.

This is just the very trite tip of an iceberg of confusion, anxiety and, for some people, excitement which surrounds the concept of empowerment.

A second article on empowerment will appear on Monday.

Corporate America gets together to show it cares

Martin Dickson reports on an initiative to help employees with children and aged parents

Corporate America has just unveiled an important initiative to help employees find adequate care for children and elderly parents while they are at work.

More than 100 companies have joined forces and committed \$25.4m (£12.8m) to fund a range of child and "elder care" programmes in 44 communities across the US. The move is being led by 11 of the largest businesses in the US, including International Business Machines, American Telephone & Telegraph, Exxon, Motorola and American Express.

Schemes include the construction of childcare centres, training for child-minders who look after children in their own homes, special programmes to occupy school-age children during holidays and the organisation of volunteers to visit aged relatives.

American companies which once shunned any role in their employees' family lives have become much more involved in the area over the past three to four years, due largely to the growing number of women in the labour force and competition to attract and retain skilled labour of either sex.

The same pressures are evident in politics, with both houses of Congress recently passing legislation which would require employers to give workers up to 12 weeks of unpaid leave, with health insurance kept in force, to look after sick family members or for their own medical needs, including pregnancy.

President Bush is certain to veto the legislation on the grounds that such leave should be negotiated by workers, rather than mandated by government. But polls suggest the idea is extremely popular around the nation and it is likely to become law if Bill Clinton, the Democratic presidential nominee, wins the November election.

The new corporate initiative represents a big leap forward: previously, each company generally pursued policies on its own. The degree of co-operation they have now agreed upon is unprecedented and is likely to set an example many other businesses will follow.

Indeed, the founders of the venture are encouraging other companies to join it. In a statement accompanying the initiative, the 11 leading companies declared that "dependant care is a primary concern of American business.

Our diverse workforce is increasingly populated by employees who must arrange care for family members – young and old – in order to be fully productive at work. Meeting the basic need for support of our working families is one of the most critical issues we face."

The basic advantages in pooling resources are seen as:

- Economic and logistic. Individual companies have found that it is either too costly, or their employees are too scattered, to make it worthwhile setting up a programme in a particular community. When they join together, the increased scale makes projects feasible.
- A systematic approach. Until now, companies have tended to take a piecemeal approach to dependant care issues, with each tackling just a few of the wide range of problems faced by families. According to Fran Rodgers, chief executive of Work/Family Directions, a Boston-based dependant care consulting company, the new scheme "attacks many problems at the same time".
- Community involvement. The new initiative draws in many local community organisations and, while primarily designed to help companies' employees, it is also meant to raise standards of childcare across the community. For example, child-minders in some communities will be given training irrespective of whether company employees use their services.

Companies involved in the scheme stress that it does not mean they themselves are plunging into the dependant care business. The funds they are contributing will be used as grants to help independent care providers.

The largest number of projects in the programme involve improving the care of school-aged children when they are not safely in the class-room.

Many parents find some of their greatest difficulties are in finding quality help for this age group, especially during school holidays, rather than meeting the less complex needs of pre-school children.

However, in dollar terms, well over half of the \$25.4m will be spent on building or expanding childcare centres. Just \$1.5m will go for the care of the elderly, which is in many respects a trickier problem to solve; parents often live some distance from their children and potential difficulties are far more varied than those of children.

The initiative represents corporate America's strongest recognition yet that companies which want to attract the best employees will need to pay much more attention in the 1990s to helping staff find a balance between the demands of a job and increasingly complex home lives.

CONTRACTS & TENDERS

COMPANY NOTICES

LEGAL NOTICES

ART GALLERIES

The first person I saw was from the local Jobcentre.

It turned out she was their Marketing Manager.

She was also well informed.

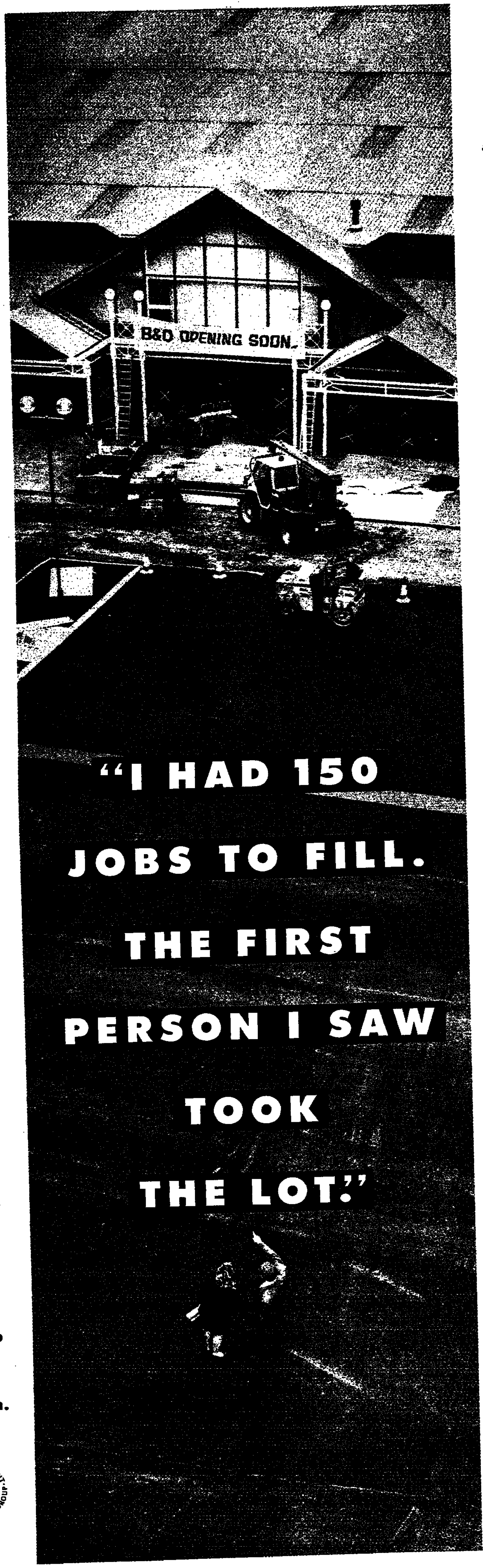
Through one of her contacts she'd found out that we were building a new superstore.

And we'd barely got the scaffolding up before she was there to see if she could help us with staffing the store.

Talk about getting your act together.

She told us how her team at the Jobcentre could get in touch with our personnel department to find out exactly what staff we'd need.

And how they'd be able to filter the applicants to match.



She also said we'd be able to use her Jobcentre for interviewing. Good job, really. We didn't have a finished store, let alone an interview room.

And if we were interested, she could arrange some open days for us.

She could even organise the advertisements for them in the local press. It was pretty impressive, really.

We'd only just decided how many staff our new store was going to need. And she'd worked out how to go about filling every single vacancy.

We had to give her the job.

All 150 of them.

For more information please contact your local Jobcentre.

EMPLOYMENT DEPARTMENT GROUP

JOB CENTRE

The crash – it can happen again

Richard Barras looks behind recent boom-bust cycles

When, in 1978, the Royal Institution of Chartered Surveyors conducted a post-mortem on the early-1970s property boom and collapse, it concluded that even if a comparable property price rise were repeated, "we do not believe that such a sudden collapse could occur again, unless triggered by some event as traumatic as the oil price explosion of 1974".

With the benefit of hindsight their optimism has proved unfounded: they attributed too great an importance to external events and too little to the inherent instability of the property market.

What are the roots of this instability? Property development is rendered uncertain by the long lead times involved: when a developer embarks on a large scheme he has to anticipate demand three to five years ahead.

Buildings by their nature are an illiquid form of investment. It is therefore inevitable that the property market tends to swing from shortage to surplus and back again, as supply overshoots and is then cut. These cyclical fluctuations are reinforced by the periodic speculative fevers which grip all markets subject to such volatility.

For these reasons, property bubbles and crashes have occurred at every stage in the evolution of capitalist economies. The crash of the mid-1970s, however spectacular, was not unique: it was merely the first of the post-war period. Furthermore, it is dwarfed by the scale of the crash which is now under way.

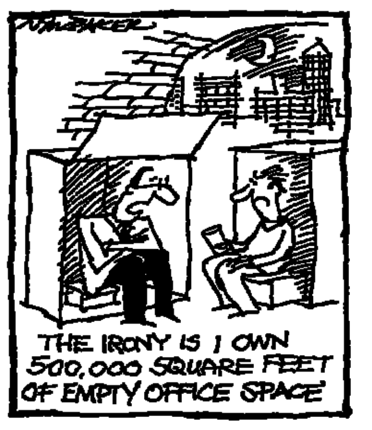
Take as an example the City of London office market, one of the most volatile markets of recent times. Between 1989 and 1991 some 15m square feet of new office space was added to the City stock, compared with 5m sq ft in the equivalent three-year period of buoyancy in the 1970s.

As a result there is now about 12m sq ft of vacant space available in the City, compared with a peak of no more than 4m sq ft during the 1970s. According to the latest forecasts by Property Market Analysis, a research group, the combination of this severe over-supply and the recession will produce a fall of more than 50 per cent in City rents between 1989 and 1993-94, compared with a drop of just over one third in the last crash.

Nevertheless, there are several parallels between the current cycle and that of the 1970s.

First, in each case a strong increase in demand for property, leading to rapid increases in rents and prices, was generated by a politically-inspired, but unsustainable, burst of economic growth. In 1972-73 this surge in demand was fuelled by the "Barber boom", while in 1987-88 it was the "Lawson boom"; the result was a similar annual 3.5 per cent average rise in gross domestic product in the four-year upswing of each cycle.

Second, the wave of development triggered by rising rents was turned into a speculative surge as a result of relaxed monetary policy and the enthusiastic participation of the banks. Thus in each period there was an explosion of bank lending for property development, which culminated in property companies accounting for almost 10 per cent of all outstanding bank debt in the aftermath of each buoyant period.



Third, the main bulk of new development reached the market just as the economy, and therefore property demand, was tripping into a recession induced by a tightening of monetary policy. The 1974 crash was precipitated by a rise in interest rates from 4.5 per cent to 13 per cent and a corresponding 1.5 per cent fall in GDP; in 1991 it was an increase in interest rates from 7.5 per cent to 15 per cent and then a 2.5 per cent fall in GDP.

All three conditions are necessary to create the classic property boom and bust. Of course, special market factors will operate in each cycle, but these tend to exacerbate the upswings and downswings, rather than provide their primary cause.

In the early-1970s the imposition of a freeze on business rents, and a Development Gains Tax, did nothing to improve confidence in the market, but it was the transformation of economic circumstances reinforced by the oil crisis which made the 1974 crash inevitable.

Similarly, while the incentives for development in Docklands encouraged the Corporation of London, the City's governing body, to relax constraints on development in the mid-1980s, the underlying cause of the subsequent central London office explosion was the surge in demand created by economic expansion in general and financial deregulation in particular.

Yet does the instability of the property market really matter? The answer must be yes. The scale of the recent development activity was such that it contributed significantly to the overheating of the economy as a whole.

And in retrospect, the £40bn of outstanding loans to the property sector, much of which is now tied up in empty buildings, represents a serious misallocation of resources in an economy which is investing far less than its competitors in productive infrastructure or manufacturing industry.

If the instability of the property market does generate such serious economic and social costs, can it be contained? The answer seems to be only to a limited degree.

Ironically, in its post-mortem on the 1970s crash, one of the strongest lessons for the future highlighted by the RICS was that "it is highly dangerous for any government to attempt to regulate the property market by seeking to limit the supply of property coming onto the market in response to demand".

If the 1990s crash teaches us anything, it is the opposite dangers of deregulation – both of the supply of credit and the control of planning permissions. Indeed, the case for strategic planning has been reinforced by the Canary Wharf saga, where offices were built before the transport infrastructure necessary to bring in the workforce.

Even if these lessons are learned, property surges and crashes at least as severe as that of the past five years will certainly happen again. The next such cycle is unlikely to be until after 2000, and by then it could well be that the policy context is being set at European rather than national level.

The author is a partner with Property Market Analysis

A mild sense of relief

Vanessa Houlder on whether history will repeat itself

Few sectors promised to benefit more from the UK's decision to enter the exchange rate mechanism (ERM) in October 1990 than commercial property, which held out hopes of interest rate cuts and more inward investment.

After a disappointing two years though, sterling's suspension this week from the ERM has been greeted by the property sector with relief - tempered by astonishment and concern at the wild gyrations in government economic policy.

The reasons for this relief stem from the reversal of Wednesday's interest rate rise to 15 per cent; tenants, investors and overborrowed companies gratefully applauded the step-down. In some quarters, encouragement was also drawn from the damage inflicted on the government's policy of taking sterling into the ERM at an overvalued rate against the D-Mark and high real interest rates. Any resulting boost to the economy will ultimately reduce the oversupply of space, the property sector's most fundamental problem.

Perhaps the biggest question mark hangs over prospects for inflation; it was inflation which helped to lift the indebted property sector out of the slump of the early 1970s; this was because of lower real interest rates and the role of property as a traditional hedge against inflation.

But not everyone believes that history will repeat itself. The deflation gripping the economy is very different from the economic climate that prevailed in 1967 – the time of the last devaluation – and 1976. Moreover, even if retail price inflation takes off, it is not clear that asset values will follow.

In the view of Mr Robert Fowlds of Kleinwort Benson Securities, property values will only rise in response to a weight of money moving into the sector. This, he thinks, is unlikely given that institutions are no longer restricted by exchange controls. Falling interest and exchange rates in the US have done little to halt asset deflation, he says.

Even the idea that inflation is good for property is challenged. "If the result of devaluation is to lift inflation, we are back to the stop-go policies that are unhelpful to property," says Mr Peter Evans of Debenham Tewson Research. "What the property market needs is steady economic growth."

PEOPLE

Heavyweights for Securities

The newly-formed Securities Institute, reflecting its plan to expand into a wider range of activities, has succeeded in bringing five City heavyweights on to its board. The body, set up earlier this year to act as a professional institute for the securities industry, wants to bring in investment managers and corporate financiers to swell its membership, which currently stands at 4,200. Two of the latest board appointments reflect those ambitions: **Paddy Linaker** (*left*), chief executive of M&G, the unit trust group, and **Richard Broadbent**, director of J Henry Schroder Wagg.

The appointment of **David Burton**, a director of SG Warburg and chairman of the London International Financial Futures and Options Exchange until earlier this year, also indicates the institute's intention of covering the derivatives markets.

The other appointments are **Michael Marks**, chief executive of Smith New Court, the market maker which has grown into a fully-fledged securities house, and **John Spencer**, deputy chief executive of Barclays Bank's investment banking division and markets division.

A further board position remains to be filled, and Tim Nicholson, chief executive, said he hopes it will be used to strengthen the institute's investment management side.

Clinton-Davis appointed to AMA

Lord Clinton Davis's election as president of the Association of Metropolitan Authorities will add some weight to the hoarse voice of local authorities in London.

A former EC Commissioner and long-time Labour MP, Clinton-Davis is no stranger to local government. After a long stint on Hackney council in the 1960s, he was mayor in 1968.

However, given the parlous state of local government, some of the wits at the AMA were pointing out yesterday that his chief qualifications for the job lie in his other public appointment: chairman of the Refugee Council.

Created a life peer in 1990, Clinton-Davis is Labour's transport spokesman in the Lords. His bread and butter comes from the City solicitors S J Berwin & Co, whose environment law team he heads.

The AMA represents 36 metropolitan districts, 30 London boroughs and the City of London Corporation. With Rodney Brooke, the dynamic former chief executive of Westminster, as its secretary, its profile is fairly high; but with a central/local government rapprochement in full swing, anything Clinton-Davis can do to endear it to suspicious Tory ministers will be warmly welcomed.

Departures

■ **Sir Jeremy Morse** has announced that he will retire as chairman of LLOYDS BANK on February 5 next year.

■ **John Beedle** has retired from CARLTON COMMUNICATIONS.

■ **Norman Corlett** has retired as chairman of the ISLE OF MAN STEAM PACKET COMPANY Ltd.

■ **Florian Walewski** has resigned from TRANSPORT DEVELOPMENT GROUP.

■ **Keith Simpson**, chairman of the Leeds Business Venture, is retiring as assistant general manager, retail banking, of YORKSHIRE BANK after 44 years.

■ **Daniel Laughlan** has retired from HALIFAX BUILDING SOCIETY.

Aegis reforms its board

Aegis, the group which specialises in buying and planning advertising space, has had a turbulent year.

It forced out its highly-paid chairman and chief executive, Peter Scott, in July, and its share price has slid from a peak of 215p in October 1991 to under 30p now. At the time, Scott's departure and the greater influence over the company of its largest shareholder, SFEC, were seen by some analysts as a a "French coup".

Yesterday, in the aftermath of the Scott upheaval, four new Aegis directors have been appointed.

Two relative youngsters joining the board as executives are **Bruno Kemoun**, 35, and **Eryck Rebbouh**, 36, both French. Their careers have moved along very similar lines and in the French advertising world they are widely known as "the twins"; they have been joint managing directors of Carat France since 1990.

They are joined by the positively youthful **Dominic Shorthouse**, who at 30 is a vice-president of Warburg Pincus, the US investment bank and other major shareholder. Shorthouse becomes a non executive director, adding to his London Weekend Television directorship.

Ray Kelly, the Richard Branson look-alike chairman and chief executive of Carat UK, one of Aegis' operating companies, has also been appointed an Aegis director.

■ **Grupo Financiero Inverlat**, Mexico's fourth largest financial institution, has poached one of the City's leading experts on Latin American stock markets to set up its European operation, based in London.

Jeremy Campbell-Lamerton, 35, who set up Lazard Brothers' Mexican operation in 1983 and Baring Securities' Latin American equity business in 1990, explains that INVERLAT INTERNATIONAL is waiting for formal approval from the Securities and Futures Authority and expects to open for business at the beginning of 1993. By then, he expects a team of 15 salespeople and analysts to be in place.

■ **Christopher Burt**, until recently with Pavilion Leisure, has been appointed company secretary of TULLETT & TOKYO FOREX INTERNATIONAL.

■ **Andrew Norman-Butler** has been appointed a director of Gerrard Vivian Gray, a subsidiary of GERRARD AND NATIONAL.

■ **Peter Hollinshead** has been promoted to operations director of FORWARD ASSET FINANCE.

■ **Angus Griffin**, formerly chief general manager, operations, and **Simon Featherstone**, formerly chief general manager, finance, have been promoted to group commercial director and group finance director, respectively, and have joined the board of NORTH OF ENGLAND BUILDING SOCIETY.

■ **Radhika Ajmera** and **Piedad Fernandez** have been appointed directors of ABTRUST FUND MANAGERS; they move from Ivory & Sime.

■ **Pascal Boris** (below), formerly area manager for North America, has been appointed head of banking at BANQUE PARIBAS London branch.

BUSINESSES FOR SALE

GREEK EXPORTS S.A.
ANNOUNCEMENT
OF A PUBLIC TENDER FOR THE HIGHEST BID

GREEK EXPORTS S.A., registered in Athens, (17 Panepistimiou Street) and legally represented, in its capacity as liquidator, in accordance with article 46a of Law 1892/1990, supplemented by article 14 of Law 2000/1991,

ANNOUNCES

A public tender for the highest bid with sealed, binding offers for the purchase, in toto, of the assets of **ALPHA TELECOMMUNICATIONS & SIGNALS S.A.**, registered in Kallithea, Attica, at 72-74 Salaminos Street. The company is engaged in production and development in two sectors. In the electronics sector and particularly in military electronic equipment such as fuses, and in computer software. It owns 2,775 m² of area in a multi-story building built on a plot of land 1,003 m² in area.

TERMS OF THE TENDER

1. For this purpose, interested parties are invited to receive from the liquidator the Offering Memorandum and to submit sealed, binding offers to the Athens notary public appointed to the tender, Flora Blana-Zoulia, at 14-16 Feidiou Street, 6th Floor, tel.30 1 362 8143 and 30 1 360 0855 **up to the 20th October 1992.**
Bids must be submitted in person or by a legally appointed representative.

2. The bids will be unsealed before the above notary on **21st October 1992 at 1000 hours** with the liquidator in attendance.
Bidders who submitted their offers within the prescribed tine limit may also attend.
Bids submitted beyond the prescribed time limit are not accepted and will not be considered.

3. The sealed offers must clearly state the purchase price offered for the assets, in toto, of the company, and must be accompanied by a letter of guarantee from a bank legally operating in Greece **to the amount of fifty million drachmas (50,000,000 drs.) or the equivalent in US dollars (U.S.$).**
In the event that the highest bidder fails to appear and sign the relative sales contract within thirty (30) days from being invited to do so by the liquidator, or fails to abide by the obligations accruing from the present announcement, the above amount of fifty million drachmas (50,000,000 drs.) deposited in guarantee, is forfeited in favour of the liquidator to cover all expenses of any kind and time spent, and any actual or hypothetical loss, without any obligation to give an accounting or consider it has been forfeited as a penalty clause, and collect it from the guarantor bank.
Guarantees deposited for participation in the tender are returned to other participants after the evaluation report has been approved and the adjudication to the highest bidder has been ratified by 51% of the creditors.

4. The highest bidder is the person whose offer has been so judged by the liquidator and approved by 51% of the creditors as being in their best interests.

5. The liquidator has no liability or obligation to participants in the tender, both with regard to the drafting of the evaluation report and to the proposal of the highest bidder, Also, the liquidator is not liable and has no obligation towards participants in the tender in in the event of its cancellation or repetition, if the results should be deemed unfavourable by the creditors.

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BUSINESSES FOR SALE

GREEK EXPORTS S.A
ANNOUNCEMENT
OF A PUBLIC TENDER FOR THE HIGHEST BID

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ANNOUNCES

A public tender for the highest bid with sealed, binding offers for the purchase, in toto, of the assets of **GENERAL INDUSTRIAL ENTERPRISES - VEPOL S.A.**, registered in Athens at 13 Amerikis Street and engaged in the processing and standardisation of fruit and gardening products. The factory is situated on the Varria-Edessa national road on a self-owned plot of land of 11.7 acres. A neighbouring plot of land of 3.2 acres is also owned by the factory. The buildings have a total area of 10,400 m².

TERMS OF THE TENDER

1. For this purpose all interested parties are invited to receive the Offering Memorandum from the liquidator and submit a sealed, binding offer to the notary public appointed to the tender, Andriani-Dimitra Zapheiropoulou-Economopoulou, 61 Stadium Street, Athens, 3rd floor, Office No. 4, tel. 30 1 321.9801, 321.4925 and 721.1896 and who from 5th October 1992 is moving to 18 Vukurestiou Street with the same telephone numbers and also 30 1 361.8249, **up to 14th October at the latest.** Bids must be submitted in person or by a legally appointed representative.
2. The bids will be unsealed before the above notary on **15th October 1992 at 1000 hours** with the liquidator in attendance. Bidders who have submitted their offers within the prescribed time limit may also attend. Bids submitted beyond the prescribed time limit are not accepted and will not be considered.
3. Sealed offers must clearly state the purchase price offered for the assets, in toto, of the comp[any, and must be accompanied by a letter of guarantee from a bank legally operating in Greece **to the amount of fifty million drachmas (50,000,000 drs.) or its equivalent in US dollars (U.S.$).** In the event that the highest bidder fails to appear and sign the relative sales contract within thirty (30) days from being invited to do so by the liquidator, or fails to abide by the obligation accruing from the present announcement, the above **amount of fifty million drachmas (50,000,000 drs.)** deposited in guarantee, is forfeited in favour of the liquidator to cover all expenses of any kind and time spent, any any actual or hypothetical loss, without any obligation to give an accounting or consider it has been forfeited as a penalty clause, and collect it from the guarantor bank. Guarantees deposited for participation in the tender are returned to the other participants after the evaluation report has been approved and adjudication to the highest bidder has been ratified by 51% of the creditors.
4. The highest bidder is the person whose offer has been so judged by the liquidator and approved by 51% of the creditors as being in their best interests.
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TECHNOLOGY

The search for crops that resist disease has caused scientists to create more genetically diverse varieties, writes **Victoria Griffith**

Harvesting a cornucopia

In 1970, a terrible thing happened to the US maize crop. A virulent new strain of fungus made its way into Florida and quickly raced northwest, killing half the crop from Miami to Texas. The cost to farmers was estimated at $1bn.

The blight, scientists say, came close to transforming the US from a food exporting nation into a food importer. The incident taught scientists a valuable, albeit expensive, lesson.

One reason the devastation was so great was that farmers were using one basic variety of maize. Billions of rows of the crop were carbon copies of each other. Another strain might have proved resistant and stopped the virus in its trek across the country. But since farmers were working with such a narrow genetic base, most of the maize had the same degree of susceptibility to the disease.

Since then, both US and international scientists have taken the preservation of different plant varieties more seriously. Organisations like the Consultative Group on International Agricultural Research, with an operating budget of up to $300m a year, scour the planet in search of rare plant strains which, crossed with more traditional varieties, would provide resistance against various diseases.

The United Nations is heavily involved in collecting and preserving plant varieties, as are many national governments. Indeed, gene banks, both public and private, have sprung up around the globe from Malaysia to Alaska.

In times of crisis, these gene banks prove valuable. When a disease hits a major crop, botanists search for a section of DNA which would provide resistance to infection. Once the area is identified, scientists can transfer genes between related plants by traditional cross-pollination techniques. In the future, genetic engineering will be used.

The collection of rare plant species for crossing with traditional crops has already begun to make a financial difference to the world's farmers. According to the Rural Advancement Foundation, varieties created through the introduction of rare plant genes produce $2.7bn in wheat sales each year, and $677m in rice sales.

One Turkish wheat variety which proved immune to several North American plagues is alone worth $50m a year to US farmers. Scientists say rare plant species may also prove valuable in the search for more nutritious foods.

"We collect berries from the tundras of Canada because they have extremely high vitamin C content," said Henry Shands, a senior botanist with the Genetics Resources Group at the US Department of Agriculture. "Someday we may be able to use that."

'All the coffee in Latin America comes from one original tree, brought from Africa. This kind of narrow gene base makes plants extremely vulnerable to being wiped out by disease'

Over the last few years, the search for rare plants has gained a new urgency. As civilisation encroaches on previously wild areas, from tropical rain forests to the tundras of Siberia, scientists fear the rate of loss of plant varieties has accelerated to 2 per cent a year.

"We have lost 75 per cent of the genetic diversity of the world's top 20 crops since the Second World War," estimated Patrick Mooney, a botanist at the Rural Advancement Foundation.

Some of the world's most genetically diverse areas are under threat from dams, roads, logging and modern agriculture. Robert Rhoades, an anthropologist at the University of Georgia, estimates that as many as 60,000 plant species – a quarter of the world's total – may be lost or endangered within the next 50 years.

The advancement of biotechnology has added to the sense of urgency. "In the old days, we just concentrated on different strains of major crops," explained Shands. "But now, scientists can make use of the genes of plants which are from a different species to improve disease resistance."

Scientists say the narrowness of the gene base of many major crops is frightening. "All the coffee in Latin America comes from one original tree, brought from Africa," said Mooney. "The rubber crop in Malaysia began with 21 trees smuggled out of Brazil. This kind of narrow gene base makes plants vulnerable to being wiped out by disease."

Technology improvements of the 1960s made matters worse, as scientists developed "miracle" seeds by cross breeding plants to increase yield and hardiness. The resulting crop was such a success that many farmers abandoned other varieties, cutting down the world's genetic base even further.

As recently as 1959, rice farmers in Sri Lanka cultivated some 2,000 traditional varieties of rice. Today, they grow just five principal strains. In India, which once harvested 30,000 varieties, more than 75 per cent of total production is now accounted for by 10 strains.

Many scientists feel so strongly about the preservation of plant material that their work has taken on a heroic aspect. Even in the 1920s and 1930s, a handful of Soviet botanists realised that rare plant materials would some day be valuable.

Nikolay Vavilov, the head of a team which collected stocks from the far corners of the earth, was sent to prison after a dispute with one of Stalin's favoured agronomists. His associates, during the 900-day siege of Leningrad in the Second World War, starved to death rather than eat the plants and seeds which they had been saving in the laboratories.

Today, researchers still have to brave dangerous conditions in their search for rare plants. Scientists at the Potato Centre in the Andes mountains of Peru have been attacked by guerrillas in the course of gathering rare potato strains. "There is the sense that we are doing something so important, the danger is worth it," said George White, who heads the gene bank for the US Department of Agriculture in Beltsville, Maryland.

Not all the collection work involves trips to the tropics, though. Kent Whealey directs an organisation in Iowa called the Seed Savers Exchange, which depends on local resources for its seed bank. According to Whealey, many farmers in the US grew traditional varieties their ancestors brought with them many years ago. When the farming crisis gripped the country, many were forced out of business.

The Seed Savers Exchange gave them a place to deposit the seed heirlooms, rather than watch them die out with the family farm. Another source for the exchange is seed companies which are closing down, or being bought out by other, larger companies.

"There's been a lot of consolidation in the seed industry over the last few years," said Whealey. "So we go through catalogues of companies that are going out of business, to see if there might be something worth saving."

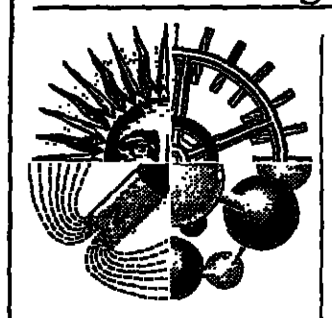
The organisation says it holds some 10,000 seed varieties in storage. With the preservation of the world's plant varieties gaining greater urgency, many scientists complain that resources for their work are too limited.

"We were hoping the Earth Summit meeting in Rio de Janeiro this year would grant us more funds, but we didn't get much," Mooney complained.

But Shands of the USDA puts things in another perspective. "Sometimes we don't really know what the materials might be used for," he said. "So it's hard to argue that this should receive more priority than, say, feeding the starving people of Somalia. I guess we should be happy with the funding we get."

When disease hits a crop, botanists search for a section of DNA which would resist infection

Worth Watching · Andrew Baxter



Mirror, mirror on the wall

As every child knows, the Wicked Queen pioneered multimedia applications of the humble mirror to pursue her vendetta against the hapless Snow White, but the Audio-Vision-Mirror promises to be the modern equivalent.

As you move in front of the mirror, you hear music and it begins to talk to you in stereo as a 3D object appears and multiplies into 10 pictures advertising products, applications and services. You are entranced and informed as the programme runs its course.

That, at least, is the theory behind the mirror, which was developed by EC Tronics, sponsored by Seeboard and launched this week at the Seeboard Technology Fair in Brighton. Uses could include acting as a warning sign in factories, a menu board in restaurants or a marketing tool. EC Tronics: UK, 0273 818188.

TV chip adjusts the fine tuning

A French-Japanese collaboration has produced a semiconductor chip that promises to bring down the cost of manufacturing a television substantially, writes Steven Butler.

Sanyo Electric and Thomson Consumer Electronics have started producing a chip that in just a few seconds adjusts 46 different parameters – including colour, luminance, and horizontal and vertical synchronization – to produce a perfectly clear, balanced picture. Until now, the parameters had to be adjusted separately, some by machine, some directly by line workers.

The cross-border collaboration fits a pattern that could be more common in the years ahead. Although Japanese companies bring considerable experience in semiconductor technology, western companies like Thomson still have the edge on digital processing. Digital processing is critical to the operation of the chip, and will be important for the next generation of electronics products.

New homes built before your eyes

Computer-aided design technology is coming to the aid of the growing number of people tempted by the challenging prospect of building their own homes.

The self-build market is worth about £3bn a year in the UK alone, with about 23,000 homes self-built every year. Now Medina Gimson, which specialises in the design and manufacture of one-off timber frame packages for self-builders, is making the benefits of Cad technology directly accessible to its customers.

Cad systems for house design have been available to the building industry for some years but the Medina initiative allows self-builders to sit alongside the designers and watch their home take shape on screen in a matter of hours.

The system was unveiled yesterday at the National Self Build Homes Show at Alexandra Palace in London, which runs until Sunday. Medina Gimson: UK, 0732 770992.

Postcodes go to market

Marketing directors who fret about the effectiveness of their companies' direct mail campaigns have a new weapon in their armoury – the ability to profile their customer database by financial as well as socio-economic type via the postcode.

A joint agreement between Infolink Decision Services and GB Mailing Systems has led to the launch of GB Profiler with Define, a software module that links the UK's 1.4m postcodes in the GB Address and AddressPlus postcoding software packages to the Infolink Define consumer market segmentation system.

Define enables marketers to profile an area's financial and socio-economic background using regularly updated information from Infolink's consumer credit database. Infolink says the implications for in-house database management and for the effectiveness of direct mail campaigns are enormous. Infolink Decision Services: UK, 081 686 7777.

ARTS

Opera/**Max Loppert**

The Force of Destiny

The long-awaited new *Force of Destiny* at the English National Opera is serious, decisive, absorbing, ultimately unsatisfying. It reveals a thorough-going attempt to contain all the elements of Verdi's tremendous operatic canvas without resort to either "editorial" intervention or simple-minded naturalistic spectacle. It lays a clean, lucidly argued grasp on the theme – the pitilessly unchanging nature of human passions and obsessions – that runs like a blood-red thread through all the variegated episodes of peace and war, inn and monastery, town and country.

Alike by the conductor, Mark Elder, and the producer, Nicholas Hytner, it is worked with considerable theatrical acumen. The scene-changes are fast, the visual strokes arresting (semi-abstract, semi-symbolic props balanced against bright-coloured 19th-century costumes); there is practical encouragement of some impressively concentrated, musically and dramatically authoritative leading performances. In Josephine Barstow, a long-celebrated ENO Leonora, the staging possesses a leading lady whose immense powers of physical and vocal theatricality have been distilled to a new and sublimely potent essence: she seems to have re-charged the character's whole being, so that every phrase, every detail become suffused with a dark, tragic radiance unmatched in my experience of this opera. There is an ambitious new translation by Jeremy Sams, surer of tone in comic and *demi-caractère* mode than in dramatic.

And yet, on the evidence of Wednesday's opening performance, the show fails to click. The problem is partly of Verdi's making: the familiar 1869 Scala revision, preferred by ENO, may smooth down the rough edges of the 1862 St Petersburg original (which both the Welsh and Scottish companies and the Proms have with profit explored in recent years), but Act 3 in its expanded and re-ordered form sprawls uncomfortably. It is a problem compounded by the recourse of the ENO designer, Richard Hudson, to the stage revolve, which whirls the basic set (a strikingly shaped half-cone bounded by a rising stairway) round and round to provide each new scene-change.

As so often in a production based on the activities of a dominant stage machine, what starts off as a boon-bestowing technical solution ends by disgorging difficulties of its own – in this case, a noisy whoosh and hum and an overly forceful tucking of every loose end into the design pattern.

Hytner drills his soldiers, orderlies, camp-followers, whores, recruits and beggars (all distinctly well-scrubbed and smartly dressed) round the perimeter and into the central cavity in a manner that seems oddly "showbiz" for this most intellectually stringent of the younger British opera-producers. (Preziosilla's "Rataplan", which Verdi re-sited to form a splashy but narratively distracting curtain to the 1869 third act revision, is here a Big Number surprisingly coarsely executed.)

In some successful *Forza* productions of recent times the opera's disjunctive dramaturgy has been transformed into a virtue (of an extraordinarily modern kind). In this one the hanging-together comes to seem a feat of physical imposition rather than of textual re-imagining.

In the foreground, though, the characters are placed and confronted with the clarity (which means, among other things, stillness in moments of reflection) and intelligence that are the more familiar Hytner fingerprints. Jonathan Summers's Carlos, ravaged by the end into a figure of terrifying madness, is an astonishing creation, embodied and enacted with fierce discipline – of all on stage he makes consistently most of the words. John Connell, whose unforced bass seems to be developing new resources of power and emotional range, proves a very strong Father Superior, ruggedly human, sympathetically placed alongside Alan Opie's brilliantly vivid Melitone.

And Edmund Barham, using his ringing tenor with greater malleability of tone and line than previously on this stage, rises to the tragic pessimism of Alvaro's role with genuine largeness of stature. He, and all the others, owed much to the Verdian steadiness and "long line" of Elder's conducting, even if it lacked much of the forward-moving excitement that also needs to inform a *Forza* performance.

Sponsored by Friends of ENO; in repertory at the Coliseum until October 15

Alastair Muir

Josephine Barstow: dark, tragic radiance

Mecca in the making

Will London become the new centre for Islamic art? **Patricia Morison** talks to Nasser Khalili

Britain, according to Dr Nasser D. Khalili, could become "the Mecca for Islamic art". Whether Britain does will depend on the government's response to Khalili's offer to present his superb collection of Islamic art to the nation. The terms of the offer, as he explained to the *Financial Times*, are not only conditional but highly specific: a museum in central London, to be named after himself.

Khalili puts the value of his collection at over £1 billion. It consists of some 20,000 pieces chosen to span all Islamic cultural artifacts, from Korans, coins and astrolabes to armour, seals, and precious scraps of letters written on papyrus in the first century of Islam. It is a collection, Khalili claims, which has no gaps.

This hoard, stored in warehouses around the world, is described by experts as the finest privately owned collection of Islamic art. In the 1980s, Khalili wrote a doctoral thesis at London University on Islamic lacquerware. Two years ago, he endowed a chair in Islamic art and archaeology at the University. Its holder, Michael Rogers, emphasises the scholarly importance of a collection which is "the product of an informed and inquiring mind anxious to show the close relations of the arts in different media."

Despite his name Khalili, 46, is Jewish. He was born in Iran where the Jewish community traditionally use both Jewish and Arab names – his second name is David. He left Iran in 1967 and has lived in London since 1980. Over 20 years and in great secrecy, Khalili has built up his collection out of a fortune from dealing in art, property and commodities.

A notable coup was in 1980 when he bought at Sotheby's the *World History* by Rashid al-Din, part of an extraordinarily important manuscript written at Tabriz in 1314. At £935,000 it was the most expensive medieval manuscript ever sold, and remains the most costly Oriental manuscript. He points out that the opportunity is there for the Persian vizier's masterpiece to return to Britain – and for him to achieve what he deprecatingly calls "my stupid vision."

This vision has been of a great art-collection to represent the achievement of Islam, a religion and culture he sees as grievously misjudged. After the years of secrecy, Khalili is now seeking maximum publicity for his collection.

An expensive and unique publishing venture is part of the campaign. On October 22, a party at the Foreign Office will mark the launch of four beautiful volumes cataloguing the Korans in the collection. The next few years will see the publication of a further 22 volumes. Through this massive publishing venture many of the world's leading Islamic scholars have been brought into contact with the Nour Foundation, set up under the chairmanship of Lord Young of Graffham to publicise the Khalili Collection.

Dr Nasser D. Khalili

To achieve his vision, Khalili intends to install his collection in a museum which will bear his name. As his adopted home and a centre of Islamic scholarship, the UK governments is being given the first offer. For 15 years, the Khalili collection should be housed in a separate museum in central London. It must be a building of between 3,500 and 5000 square metres and would be fully staffed with curators and conservators. As well as giving public access to the collection, the museum must function as a centre for teaching and research.

During that period, loan exhibitions would take the collection around the world, the cost to be born by the host nations. The Museum would be a growing collection, objects being added and also sold. Khalili is determined it should not suffer the fate of the Chester Beatty bequest, turned down by the British government and now fossilised and unvisited in a Dublin suburb.

But what about the expense of a new museum, to be created for 15 years in the first instance and at a time when flagship national collections such as the British Museum and the National Gallery vociferously bemoan their financial plight? What, too, of the objection that London already has enough museums already?

Khalili's answer is that the UK can ill afford to pass up his offer. With a population of 2½ million Moslems, it is time the country made a big gesture to acknowledge their role. Yet the museum needs to be in London, not in Bradford or other major areas of Moslem population, so that it will be easily accessible to international tourism.

The museum's cost would be "peanuts" compared with the benefits it would bring, not only in of tourist revenue but also in terms of good will from the Islamic world and giving Britain the lead within Europe in cultural relations with the Middle East.

Other countries have expressed a keen interest in the collection. Spain is said to have already agreed to meet Khalili's conditions. However, Khalili is prepared to wait while the negotiations with the British government run their no doubt tortuous course. "I am offering the horse, its just a case of providing the saddle", he says. But his clearly stated preference is for a British saddle for his extraordinary gift-horse.

Berlin Festival/**Andrew Clark**

Reimann's 'Das Schloss'

Kafka-esque: you don't even need to have read the novels to know what it means – a nightmare vision of the world in which no-one gets anywhere. That just about sums up Aribert Reimann's sixth opera, *Das Schloss* (The Castle), derived from Kafka's posthumously published novel and the play which Max Brod made out of it. The work has just been premiered at Berlin's Deutsche Oper and makes a powerful centrepiece for this year's Berlin Festival.

The festival theme is Prague, Kafka's birthplace, but the topicality of *Das Schloss* lies much closer to Berlin. The central figure – known only as K, the protagonist of several Kafka works – arrives in a wintry, loveless village with a commission to work as land surveyor at the Castle. His repeated efforts to gain access to the Castle meet with indifference, obstruction, betrayal and hostility. The villagers, who have learned to live with the inescapable, invisible power of the Castle, treat K like an unwelcome foreigner, and at the final curtain he is as helplessly isolated as he was at the start.

The parallel with the bureaucracy and xenophobia of contemporary Germany is inescapable. Neither Reimann nor the producer, Willy Decker, do anything to point up the analogy: they don't need to. Divided into nine scenes with interludes of *Pelléas*-like potency and a single interval, *Das Schloss* is a bleak, three-hour, symbolist slog – but it was absorbed with extreme concentration by a full audience on the night I attended.

Reimann has cut the Brod dramatisation by two-thirds and added some poems and passages from Kafka's diaries. He should have cut more. As operatic material, the main weakness is that we know almost from the start that K is not going to make progress – which automatically reduces the scope for surprise and tension. Another problem is that Reimann works in solo-speeches of arduous length, sapping the dramatic punch of several key scenes. Nor do his cantabile vocal lines offer much differentiation: of the 15 solo parts, only Frieda, K's sympathetic mistress, has music that conveys a sense of emotional turmoil.

The score, based on Reimann's adaptation of the 12-tone technique, is spare and refined, as if the physical battery of sound in *Lear* has been turned inwards to produce an atmosphere of abstract psychological oppression. Reimann composes along the text, weaving and keening the music on a carpet of subtle string sound and deploying the rest of the orchestra in oblique compartmentalised blocks.

The quality of craftsmanship and invention is undeniable – above all the prism-like textures Reimann creates within individual instrumental sections – but like the world K inhabits, the musical atmosphere is mysteriously lacking in variety of pace and colour.

In common with the protagonists of Reimann's Shakespeare, Strindberg and Euripides operas, K is a lonely figure involved in a struggle. But our sympathy is compromised by his blind, self-defeating doggedness – as when he falls asleep during a crucial meeting with an official from the Castle (a spoken role), in a final scene of Beckett-like absurdity. The part, a long and arduous one, was created by Wolfgang Schöne, an experienced baritone who knows how to blend lyrical poise and expression.

Of the remaining roles, the most distinctive are the two apprentices (Bengt-Ola Morgny and Ralf Lukas), a double-act haunting K at every turn and providing some welcome comedy – not a quality previously associated with Reimann. Adrianne Pieczonka was a radiant Frieda, Isoldé Elchlepp the neurotic Hostess and Peter Maus the exploitative Schoolteacher.

Decker's lucid staging, designed by Wolfgang Gussmann, was built around a black snow-swept bastion, with doors and a staircase opening from the inside but strangely impenetrable from without. Michael Boder conducted with cool precision. Further stagings this season in Hanover, Duisburg and Berne may well reveal a less severe dimension to this worthy, uncontroversial modern opera.

Theatre/**Malcolm Rutherford**

Medea

What with *Hecuba* at the Gate, *The Thebans* at the Barbican and now *Medea* at the Almeida, London has begun to sprout a Greek festival. Unless there is to be a touch of Aristophanes to lighten it up, perhaps the time has come to say that enough is enough. *Medea*, in particular, is heavy going. The Almeida production repeatedly brings to mind the remark by the philosopher, Wittgenstein: "Of one thing I am certain. We are not here in order to have a good time."

I should also admit to a growing prejudice. After exposure to *The Thebans* last week (a production with many virtues) I find it increasingly difficult to take seriously people who, however otherwise intelligent, persisted in believing in the oracle at Delphi, the Furies and the inevitability of doom.

Medea is Euripides' first surviving tragedy. The story is gruesome. It was Medea who, with her magic arts, enabled Jason to pick up the golden fleece from Colchis and returned with him to Greece. She married him; they had children. The play begins when he is preparing to ditch her in order to marry into the ruling family. Medea has the future wife murdered, then kills her own children. That is about it.

The piece has some pathos. Medea is an immigrant in a foreign land who perhaps does not fully appreciate the benefits that Greek civilisation is supposed to bestow. She is a strong character and does not take kindly to Jason's proposal to move up in the social hierarchy. The underlying theme of the Almeida production, and presumably the reason why it has been put on, is that there have always been Jasons: women should stand up to them. As Medea puts is in a new translation by Alistair Elliot: "It's natural for a woman to be angry with a husband embarking on a second marriage."

Medea is played by Diana Rigg, a fine actress, full of passion, intelligence and looks that kill. But one wonders if she sat in the audience and watched this production whether it would occur to her how relentlessly, hellenically monotonous it is.

There are one or two redeeming features. The chorus, played by three women in a mixture of speech and song, is much more effective than the far bigger chorus in *The Thebans*. The music by Jonathan Dove is very good. There is an excellent performance by Dan Mullane as the messenger who describes the horrors of the murder perpetrated by Medea on her rival.

Tim Woodward has an embarrassing time as Jason, since the production is rigged against him and – to be fair to the women's movement – he has no plausible excuses for his action. Direction is by Jonathan Kent.

Almeida Theatre until October 24 (071) 359 4404

'Contrasts' on the South Bank

For this week, the pianist András Schiff and the oboist Heinz Holliger devised a chamber music series – not, for once, billed as a "festival" which is enjoying a brave success. Brave, because as the title "Contrasts" delicately suggests, each programme offered a very mixed bag: not only a variety of pieces for different players, but ranging from slight (piano-duet marches by Beethoven) to substantial (Mozart's piano-and-wind quintet), and from Bach to brand-new music that would normally attract far smaller audiences.

For the second concert, the premiere of a new wind quintet by Harrison Birtwistle was cancelled, in circumstances which remain obscure; but the first boasted two recent works by Elliott Carter. *Inner Song*, an oboe monody in memory of the composer Stefan Wolpe, was exquisitely played by Holliger. Meditative, lyrical and limpid, it sounded almost diatonic (a "white-note" piece, so to speak), and served as a deceptive appetiser for the much tougher 1991 Quintet which ended the concert.

This latter employs the same instruments as Mozart's transparent masterpiece, to which Carter professes a certain debt. That might go unremarked, for Carter's single, unbroken movement (some 24 minutes long) is darkly dramatic. Like other recent Carter, it explores a highly individual harmonic palette, more striking than the promised "dialectic interplay" – until a late section in its sequence of high-profile contrasts, when the dialogue becomes furious and the clarinettist takes his E-flat instrument up to a shrieking climax.

At the start, over sustained wind-chords, Schiff delivered the piano-rhetoric with stinging force. He stayed in that mode for most of the piece; I suspect that there is more to be discovered in his part, gentler tones and intimations. Still, the fierce lucidity of the Quintet was gripping. It will repay acquaintance, with dividends.

The winds' contribution, here and everywhere, was exemplary. It was a particular pleasure to hear more of Radovan Vlatkovic, a rare visitor but one of the most musical horn players in the world. They all shone in György Kurtág's early Wind Quintet, brilliantly economical, witty and passionate; and in a less remarkable but appealing Diptych by the late Sándor Veress.

An unexpectedly fascinating piece came from Isang Yun, an ex-Korean composer who has found safe haven in Germany, where his music is more often heard than here. It was his trio *Rondell* (Holliger, Elmar Schmid's suave clarinet and Klaus Thunemann's ripe bassoon): seven coolly intense sections, only a couple of them quick, which develop inexorably and at last, with *portamento* slides, go into ritual Oriental keening. Quite haunting: I long to hear it again.

David Murray

Queen Elizabeth Hall. Sponsorship by Mrs Jackie Rosenfeld, London City Airport and Pro Helvetia; last concert September 19

INTERNATIONAL ARTS GUIDE

Switzerland's performing arts institutions are going through a bumpy period, as the tough economic climate forces cutbacks in public subsidy. The latest victims are Basle and Berne, where theatres and symphony orchestras are being forced to shrink programmes from next season. Geneva and Zurich have already put belt-tightening measures in place, including higher seat prices.

One of the few institutions to emerge with its programme unscathed is the Zurich Opera House, where the season gets underway in earnest tomorrow with a new production of Bellini's Il pirata. Zurich's decision to go for star singers - albeit in some cases slightly faded stars - has ensured buoyant box-office takings: Grace Bumbry, Jose Carreras and Agnes Baltsa feature prominently in a season which includes a revival of Giordano's Fedora in November, a new Jonathan Miller production of Schreker's Die Gezeichneten in December, and a Ruth Berghaus staging of Der Freischutz next February. Berghaus also turns up this month in Basle, where she is staging Don Carlo (first night next Fri). The Basle season includes revivals of two acclaimed Mozart stagings by Herbert Wernicke, two classical ballets (Sleeping Beauty and Coppelia) choreographed by Youri Vamos, plus two Ibsen productions and Shakespeare's The Merchant of Venice. The main interest in the Lucerne season is the arrival of a talented young German chief conductor, Olaf Henzold, who opens the opera season tonight with Jenufa, followed by Don Giovanni in November. Berne follows last season's successful production of Ligeti's Le grand macabre with two more contemporary operas - Siegfried Matthus' Judith and Aribert Reimann's Das Schloss. French-speaking Switzerland can look forward to a first encounter with American director-designer Bob Wilson, who is to stage Virginia Woolf's Orlando in Lausanne and the Gertrude Stein theatre work Doktor Faustus Lights the Lights in Geneva. The Lausanne theatre season includes a Luc Bondy staging of Ibsen's John Gabriel Borkman, while Geneva sees a Benno Besson staging of a text by Coline Serreau.

Operatic highlights in Switzerland include a Christmas production at Lausanne of Milhaud's opera-ballade Le Carnaval de Londres. Geneva has Die Frau ohne Schatten in November, Poulenc's Dialogue des Carmelites with Marie McLaughlin in March and Samuel Ramey as Boris Godunov in May.

EXHIBITIONS GUIDE

APELDOORN
Rijksmuseum Paleis Het Loo The White Palace: From Louis Napoleon to Wilhelmina 1806-1962. Het Loo was the residence of the Dutch royal family before it became a museum in 1970, when it was stripped of its 19th and 20th century additions and returned to its original 17th century condition. The exhibition comprises mostly unknown 19th and 20th century drawings and designs for additions to the palace, plus objects and interior furnishings belonging to its former residents, including Louis Napoleon's collection of precious golden clocks. Ends Jan 10.
AMSTERDAM
Rijksmuseum Meeting of Masterpieces: works by two 16th century Italian masters come face to face - Lodovico Carracci's The Vision of St Francis and Titian's Madonna and Child with John the Baptist and Catherine. Ends Nov 8. Also Drawings from the Age of Bruegel: the Frits Lugt Collection. Ends Nov 8. Closed Mon.
Van Gogh Museum Felix Vallotton (1865-1925): retrospective of the Swiss Post-Impressionist painter who joined the Nabis. Ends Nov 1. Daily.
BERLIN
Nationalgalerie Art in Germany 1905-37: more than 140 paintings and sculptures by 62 artists, including Dix, Klee and Munch. Ends Jan 3. Closed Mon and Tues.
Brucke Museum Painting and Sculpture of the Brucke: works by Kirchner, Schmidt-Rottluff and other members of the early 20th century group of artists based in Dresden. Ends April 4. Closed Tues.
S'HERTOGENBOSCH
Noordbrabants Museum Shrovetide Carnival: a visual history of this old tradition of the southern Netherlands as expressed in art. The exhibition includes a wide variety of paintings, sculptures and objects from the 16th century to the present day, and examines the accompanying rituals of carnival tradition. Ends Nov 29.
LONDON
Royal Academy of Arts Sacred Art of Tibet: a monumental exhibition of Tibetan art from the 9th century to the present, including 160 rare examples of paintings, sculptures and tapestries, many from the Hermitage in St Petersburg. All the works were created as objects of worship. Ends Dec 13. Also Alfred Sisley retrospective. Ends Oct 18. Daily.
Hayward Gallery Art of Ancient Mexico: 170 sculptures in stone, jade and clay, including full-size figures of priests and gods, a Maya dynastic monument and the sculpted head of an Aztec eagle warrior. Drawn from museums in Mexico and the British Museum, this exhibition offers a glimpse of one of the world's great sculptural traditions. Ends Dec 6. Daily.
Courtauld Institute Kokoschka: works on paper from the Princes Gate Collection. Ends Oct 28. Daily.
Institute of Contemporary Arts Jean Nouvel: multi-media installations by the French post-modern architect. Ends Oct 25. Daily.
Barbican John Heartfield, father of photomontage. Ends Oct 18. Daily.
Tate Gallery The Painted Nude. Ends Dec 27. Daily.
MADRID
Centro de Arte Reina Sofia An exhibition inaugurating the museum's permanent collection, featuring Guernica and 19 other Picasso works, 24 by Dali, 17 by Miro, Le Corbusier's The Fall of Barcelona and more than 300 other important 20th century paintings. The museum is designed to complement the Prado's collection of works by Velasquez, El Greco, Goya and other pre-20th century artists. Madrid's triangle of national art museums on the Paseo del Prado will be completed on Oct 8 by the opening at the Villahermosa Palace of the Thyssen-Bornemisza collection, comprising 787 masterpieces transferred from the Thyssen gallery in Lugano. Closed Tues.
Fundacion Juan March David Hockney: 76 paintings, photographs and drawings. Ends Dec 13. Daily.
NEW YORK
Metropolitan Museum of Art Ribera: a retrospective devoted to one of the great painters of Spain's Golden Age, commemorating the 400th anniversary of his birth. Ends Nov 29. Also Rene Magritte: 152 works by the Belgian surrealist, including paintings, drawings, sculpture and painted bottles. Ends Nov 22. Closed Mon.
Guggenheim Museum The Avant-Garde in Russia 1915-32: more than 800 works representing the development and legacy of abstraction in early Soviet art. The exhibition includes painting, sculpture, photography, architectural and topographic design, theatre costumes, textiles and porcelain, with work by Kandinsky, Lissitsky, Popova and many others. Ends mid-Dec. The SoHo site has the seven murals on paper which Marc Chagall painted for Moscow's Jewish Theatre in 1920. The main museum is closed on Thurs, the SoHo site on Tues.
PARIS
Grand Palais The Etruscans and Europe: 650 exhibits of pottery, bronzes, wall paintings and jewellery show a harmonious civilisation formed a link between ancient Greece and Rome, and influenced art and craftsmanship in central and western Europe. Ends Dec 14. Closed Tues, late opening Wed (ave du General Eisenhower).
Grand Palais Biennale des Antiquaires: Pier Luigi Pizzi has devised a theatrical mise en scene for exhibits spread over 4500 sq m. ranging from a terracotta chaman 1150-800 BC to a sensual Venus in oil on copper from about 1600 AD. Ends Oct 4. Daily.
Espace Electra The Meeting of Two Worlds through the Eyes of Haitian Painters. Ends Oct 17. Closed Mon (6 rue Recamier).
Parc de Bagatelle Henry Moore: 27 large bronze sculptures. Ends Oct 4 (Bois de Bologne).
PRAGUE
National Gallery Emil Orlik (1870-1932): 150 paintings, drawings and illustrations by the Prague painter. Ends Oct 4. Closed Mon.
ROTTERDAM
Museum Boymans-van Beuningen Impressionism: A Fresh Look. The exhibition consists of the museum's own collection of French Impressionists, with paintings by Gauguin, Signac and van Gogh, drawings by Cezanne, prints by Toulouse-Lautrec and Bonnard and sculptures by Degas, Renoir and Rodin. Ends Nov 29. Also David Hockney: prints and photographs 1960-1980. Ends Oct 4. Dutch Lace Schools from 1850 to 1940. Ends Oct 18. Closed Mon.

FINANCIAL TIMES

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Friday September 18 1992

Policy after the collapse

THE ECONOMIC policy of the UK is now in tatters. So, unfortunately, is its relationship with the German monetary authorities. The UK must refashion the first and repair the second. But it must also preserve what has been achieved under Mr John Major, both within the UK economy and in the UK's relations with the rest of Europe. The UK can and must be both actively and sympathetically involved in European integration. It will be so only if it solves its fundamental economic problem, that of securing non-inflationary growth.

The ERM policy did not fail because the UK government was tactically inept, though it was. Nor did the policy fail because of the maladroitness of the Bundesbank, though that certainly helped. The policy failed because its price became too high. It became impossible to believe in the survival of a policy that seemed to promise indefinite continuation of recession, ever-rising unemployment and progressive fiscal deterioration. The markets decided that no government could support the parity at the price of an economic decline unparallelled in the history of the ERM.

The defeat was suffered for two noble causes: a desire to eliminate the UK's ruinous inflationary psychology and a determination to play a full part in the councils of Europe. The FT supports both causes, as it supported the ERM policy. Neither Mr Major nor Mr Lamont are to be damned for their pursuit of this policy, nor even for their repeated assertions that they would never do what, in the end, they were forced to do. Such assertions are the swiftly debased coinage of any semi-fixed exchange rate regime.

Yet sterling cannot simply be returned to the ERM at the earliest opportunity, as if nothing had happened. Even a resounding Yes in Sunday's Maastricht referendum in France would not decide the matter.

Brutal reminders

The argument for ERM membership was that it would both add to the credibility of UK monetary policy and reinforce the country's participation in European integration. But no new parity can have credibility. Who imagines that the government, after already losing some 7 per cent of the value of the huge sums dispensed in sterling's defence, would soon repeat the experience? Who believes that the backbiting between the British government and the German authorities of recent days has helped European integration?

The last two years and, above all, the last few weeks have given brutal reminders of the rake's progress of vulnerable parities in exchange rate regimes like the ERM: the ever-more fulsome avowal of decreasingly credible commitments, the conflict between domestic and external exigencies, the arguments between those responsible for the key currency and those on the periphery, the one-way bet offered to speculators, the final panic and then the ignominious collapse.

These are not risks to be run lightly once more. A regime with the economically turbulent unified Germany at its heart would again tie the UK to a frequently inappropriate monetary policy. At present that policy is probably still too tight. Until the dust settles in Germany, the UK would do best to wait in the wings.

Real dangers

It should, instead, take the opportunity offered by its floating exchange rate. But it must not ignore the real dangers of doing so. What is needed is to build on the still incomplete achievement of low inflation. The higher prices that will follow directly from the current devaluation must not be allowed to generate a new wage-price spiral.

No dashes for consumption-led growth can be contemplated. The government was right to lower base rate to 10 per cent once again, but it should go no further than that for the moment. Devaluation will stimulate manufacturing, itself among the most depressed parts of the economy. A slow recovery, led by exports, would be far safer and gain far more credibility for whatever parity might ultimately be chosen than an attempt to stimulate consumption through much reduced interest rates. Any such reduction might also lead to a complete collapse of sterling, because it would be rightly perceived as a return to the often repeated short-term growthmanship of the UK.

The case for granting the Bank of England the power to set interest rates, subject to an explicit and public override by the government, is now overwhelming. A government prepared to cede that power to the Bundesbank should not be averse to giving it to a reformed Bank of England. The Bank, in turn, should focus precisely on what the Bundesbank does, the growth of credit and money supply, the exchange rate and long-term rates of interest.

A policy dedicated to attaining non-inflationary growth is best for the UK and also the best way for the UK to prepare itself for further involvement in European monetary integration. Europe needs a UK that believes in itself, not one that believes itself incapable of anything better than devotion to an inward-looking Bundesbank. What the Bundesbank was expected to do for the UK can also be done by the Bank of England. It was done by the Bank for centuries. That is the only monetary policy the British government can now sensibly adopt.

Sunday matters

AMID THE tumult on the currency markets this week, attention has been distracted from the event that helped to bring it about: France's referendum campaign about the Maastricht treaty. Some are arguing that the vote has suddenly diminished in significance – that since the financial apocalypse foretold as a consequence of a French No is already upon us, the referendum somehow matters less. That argument is wrong. What happens on Sunday remains of central importance to Europe and to France.

It is important for Europe because of the pivotal role France has played in the integration process from the beginning. And it is important for France because a commitment to Europe – and in particular to Franco-German co-operation – has defined the country's history and identity since the second world war. Indeed, until this year it appeared the French had identified themselves so completely with efforts to create a closer European union that the subject did not merit serious domestic debate.

Impossible as it seemed when President François Mitterrand called the referendum last June, all those assumptions have now been thrown open to question by the possibility that voters will reject Maastricht this weekend. To understand that is the reason to hope that France will vote Yes.

A No vote would not just destroy the treaty on European Union, or force EC institutions to tread water for a while. It would mark the biggest reverse in the Community's history, and one from which it would take years to recover. Rightly or wrongly, it would also be seen as undermining France's relationship with Germany at the worst possible political moment. Rumblings to this effect have been evident not far beneath the surface of the referendum debate, with French politicians on both sides of the argument referring to "German demons" and German politicians struggling to contain their irritation. Approval of Maastricht is needed to banish such atavistic noises from mainstream politics, and permit the countries at the core of Europe to concentrate on steering the Community through the troubles that lie ahead.

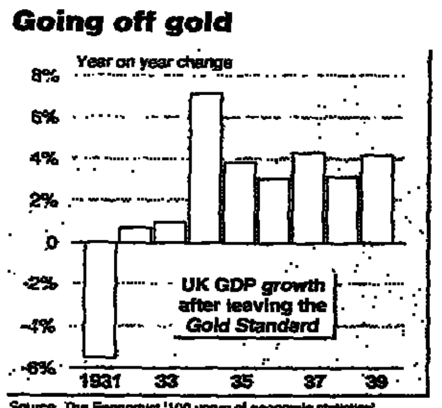
Even in the unlikely event of a resounding Yes, this will be exceptionally difficult. It will involve creative thinking by all EC governments, and a significant effort to assuage the concerns about the Maastricht treaty that have emerged in several member states apart from France.

The treaty can only come into force when all 12 governments have ratified, and no one has yet come up with a remotely plausible answer to the problem posed by Denmark's vote to reject it last June. Moreover, the humiliation of the British government in the last two days makes it less likely that parliament will readily ratify Maastricht in its present form, and considerably less likely that Mr John Major, as current Community president, will be able to give much of a lead. As for Germany, Chancellor Helmut Kohl faces mounting political problems of his own – including domestic opposition to the treaty's provisions for economic and monetary union, which will have been fuelled by this week's market turbulence.

All this points to the need for European governments to take another hard look at important aspects of the treaty – and in particular to obey economic logic in framing the timetable and scope for completion of Emu, perhaps at variable speeds. But first we need a positive outcome on Sunday.

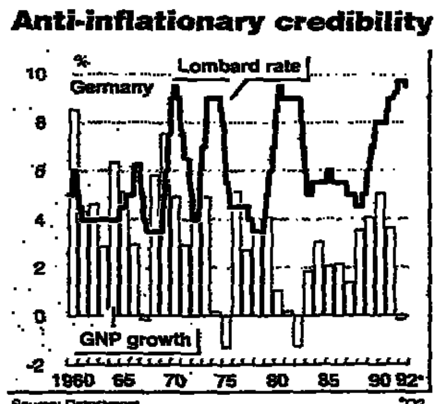
A French Yes will not be sufficient to put the Community back on the rails. But without one, EC leaders will be hard-pressed even to begin trying.

Going off gold



Source: The Economist '100 years of economic statistics'

Anti-inflationary credibility



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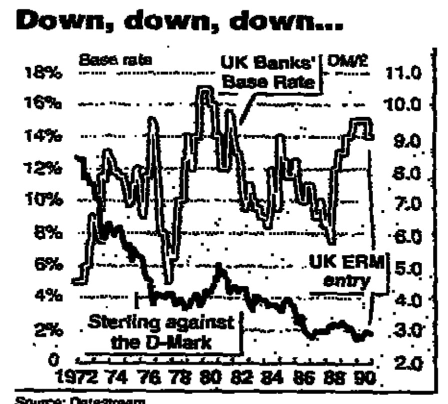
Down, down, down...



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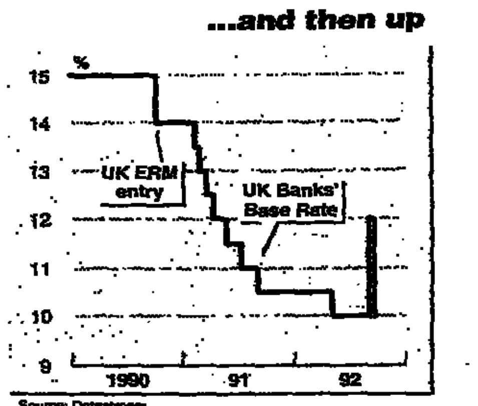
...and then up



Source: Datastream

John Plender, Peter Norman and Peter Marsh outline the difficult options facing Britain's economic policymakers

Fix, float or do nothing

Rarely is it open to governments to rebuild their economic policies from scratch. Yet that is the position in which Mr John Major's embattled administration now finds itself, even if it is reluctant to admit as much. What are its options, after the failed attempt to transform Britain into a low-inflation, competitive international trading nation by anchoring sterling to the D-Mark?

The main choices might crudely be characterised as: fix, float or do nothing – this last being little more than floating by another name. In other words, should Mr Norman Lamont or any successor as chancellor restore sterling to the exchange rate mechanism (ERM) or perpetuate the present punch-drunk float? Yesterday's nebulous commitment to go back into the ERM as conditions permit would provide an adequate cloak for whichever of these divergent policies ultimately appealed to the government. There is then a set of sub-options, which concern ways of reinforcing credibility once the basic policy choice has been made. What follows is a plain man's guide to the pros and cons of the various avenues open to the government. It starts with the de facto option of the moment, namely:

● Floating. The minimalist case advanced by pro-floaters for allowing sterling to find its own level is that anything would be better than continuing to put up with a German monetary policy within the ERM that is wholly unsuited to British domestic economic conditions. Policymakers in Britain would enjoy the freedom to set interest rates at a level designed to address the problem of debt deflation and the associated maladies of falling house prices, rising unemployment and low consumer confidence. In fact they have already done so by permitting a two-point reduction in interest rates back to the 10 per cent level of Tuesday.

Instead of the burden of adjustment falling on domestic demand, the exchange rate would, if this policy were maintained, take the strain; and it would provide an escape valve over the longer run against the vicissitudes of policy in the US, as well as Germany. On this view the exchange rate is a market price; and it provides an adjustment mechanism that is perfectly designed to cope with divergent economic policies in the Group of Seven industrialised countries and in the ERM. Once move to floating and the conflict between what is needed to support the pound and the requirements of the domestic economy disappears.

This was, in effect, Britain's answer to a similar problem in 1931, when sterling went off the Gold Standard. The subsequent float was associated (see chart) with Britain's highest rate of economic growth this century. But there are snags.

Devaluation following a decision to float carries inflationary risks, as the increased cost of imports feeds through to domestic prices. In the 1930s, when Britain was still at the heart of the sterling area, that risk was less because a great deal of the world was simultaneously floating downward with sterling. Today, the sterling area is no more and Britain's pattern of trade has shifted substantially to continental Europe. The inflationary consequences of devaluation are thus potentially greater.

The obvious, and worrying, precedent is the decision by Tony, (now Lord) Barber to float the pound in 1972. That contributed significantly to an inflationary boom that took the annual rate of increase in the retail price increase to 27 per cent by mid-decade. A further worry is

Devaluation after a decision to float carries inflationary risks because of higher import costs

that after the government's loss of credibility over the past week the markets might not take kindly to a rapid reduction in interest rates. Even if base rates of 6-7 per cent were appropriate for the woes of the British economy today, a rapid move in that direction might put sterling into free fall.

Yet the risks can be overstated. As far as inflation is concerned, today's devaluation is taking place against a background of an extremely depressed level of activity, which will tend to reduce the adverse impact on prices. And while the markets clearly need careful handling in the short run they are not necessarily antipathetic to expansionary policy. According to David Hale, chief economist of the Kemper financial group in Chicago, the UK's poor economic performance has contributed to negative market sentiment in recent months. Improved sentiment for British equities on the basis of lower interest rates and devaluation could well be associated with subsequent capital inflows which would help stabilise the pound.

A second snag concerns the political implications of staying out of the ERM. John Major's frequently stated desire to put Britain at the heart of Europe would be hard to reconcile with a free-floating position outside the system. Yet it is possible that his aspiration has already sustained a mortal blow as a result of this week's events. A No vote in this weekend's French referendum would anyway make it hard to define where precisely the heart of Europe is located.

Should the government decide that the inherent risks of floating are outweighed by the rewards, it would probably have to review its overall fiscal stance and would almost certainly feel obliged to improve domestic monetary discipline to compensate for the abandoned D-Mark exchange rate anchor. The trouble with such a move is that it was the failure of domestic money supply targetry in the 1980s that prompted the ill-fated experiment with exchange rate targets in the first place.

This means that Britain might be forced to rely on a wider range of indicators. The risk is that a lack of precision in defining the targets constitutes an invitation to sacrifice monetary virtue on the altar of political imperatives. Yet precision encourages financial intermediaries to use their ingenuity to by-pass disciplinary measures, for example, by borrowing off-shore, so distorting the authorities' chosen target.

Another strategy for bolstering Britain's credibility in a return to floating would be to grant independence to the Bank of England. This is music to the ears of Bank officials, who would almost certainly be a tougher guardians of the currency than their counterparts in the Treasury. The Bank never conceded that monetary policy was tight, let alone excessively tight, when sterling was hopelessly overvalued in the early 1980s. But it took decades, rather than years for the Bundesbank to establish its reputation for monetary rectitude. So Britain's Liberal Democrats, who have been pushing this nostrum hard, have probably over-sold their case. Which brings us to:

● Fixing. There is most unlikely to be any such thing as a quick fix, not least because nobody can be sure of the future shape of the ERM, in the light of the French referendum and the problems of the Italians – who are bravely (or foolishly) committed to re-assuming their ERM obligations next Tuesday – and the Spaniards. Britain has also given itself more time to decide on a return than Italy because the Treasury feels that the turmoil on currency markets over the past week has other causes than the French vote. UK Treasury officials yesterday said the recent weakness of the dollar, low US interest rates

In one sense the sheer awfulness of the latest debacle lends strength to the ERM case

and the Bundesbank's high interest rate policy were other factors that had derailed UK policy.

This reasoning is largely self serving. But it could also imply that these problems would have to be resolved before the UK will be prepared to consider full EMS membership as a genuine policy option. And the markets appear to be looking for a protracted period on the sidelines. Yesterday's rise in share prices was predicated on a continuing fall in interest rates, implying a possible further depreciation in the sterling parity. Gilt yields, meantime, fell at the short end of the market on similar assumptions about falling base rates, while long bond yields rose on the thesis that inflationary pressures looked more threatening with the ERM discipline removed.

The case for going back in at some point in the future, if there is a worthwhile ERM left to go into, is simple enough. As John Shepperd, economist at S.G Warburg Securities, puts it: "Whatever happens over the next few weeks I am convinced that Mr Major has not turned his back on the ERM for good. Even if Britain re-joins at a lower rate of perhaps DM 2.65, the ERM policy is the only route open for Britain if it wants to lock into lower inflation. All the other policy prescriptions look threadbare."

In one sense the sheer awfulness of the latest débâcle lends strength to the ERM case. An argument for entry in 1990 was the belief that Britain was not competent to run its own monetary policy. After this week's humiliation, the same argument must apply in spades. But that in turn could also be taken to imply that Britain's second-time judgement about when to re-enter and its choice of central rate within the parity grid might be flawed once again. The argument could run in perpetuity.

Perhaps the most powerful argument for reconsidering an external anchor for monetary policy is that Britain, like Sweden, has lived through a series of post-war currency depreciations, in and out of fixed rate exchange rate systems, that have proved to be nugatory. In the end the nominal depreciations have always been off-set by inflation and competitiveness has shown no long run real improvement. While there may be a case for devaluation in response to one-off external shocks, a succession of devaluations becomes self-defeating as market expectations adjust.

The floaters' counter-argument is that the present devaluation is not primarily about restoring competitiveness. It is merely a by-product of the attempt to address domestic economic problems with appropriate domestic remedies.

The UK would certainly face massive problems rebuilding the credibility of its commitment to the mechanism. It was, after all, the chancellor, who said recently that: "The ERM is not an optional extra, an add on to be jettisoned at the first hint of trouble. It is and will remain at the very centre of our macroeconomic strategy." In the event, Britain showed less determination to stay in the ERM than Sweden, a non-member, prepared to demonstrate in maintaining the link between its currency and the Ecu.

It would be unwise to underestimate John Major's commitment to disinflation via the ERM. But he is also an accomplished politician. It is hard to believe, regardless of the purely economic merits of the case, that he would embark on a second experiment with an external monetary target before the economy is firmly established on a growth path again. For many on the Tory benches and in the country, once was more than enough.

Enterprise in extremis

Lionel Barber says the outlook for European union is bleak, whatever the outcome of the French referendum

The game is up. Whatever the outcome of the French referendum on the Maastricht treaty on Sunday, it is hard to see how the treaty's grand vision of European political and monetary union can survive in its present form.

In Brussels yesterday, Britain's bloody retreat from the European exchange rate mechanism – coupled with Italy's temporary abstention – was hailed as a necessary measure to maintain confidence in the European Monetary System.

But the Anglo-Italian moves – matched by the devaluation of the Spanish peseta – raise the prospect of a two-tier Europe, with the weaker economies dropping behind a "hard-core" block led by Germany. Maastricht's goal of monetary union for all of the Twelve by the end of the century, never easy, now seems remote indeed.

Moreover, the atmosphere of recrimination which accompanied Britain's retreat – particularly the charges in London of Bundesbank sabotage forcing the devaluation of sterling – seem certain to poison the immediate prospects for future European co-operation. "What (these events) demonstrate is the fragile nature of the Community," says a senior EC official.

For three months since Danish voters narrowly rejected the Maastricht treaty last June, European heads of government have insisted that the enterprise could be salvaged. They have stuck to this view, despite growing doubts about the treaty in Britain and, more importantly, in France and Germany, the driving forces behind greater European integration.

Maastricht was conceived in what now seems a distant era of optimism. Although the treaty contained important provisions on a common social policy, foreign policy and tentatively defence, the most important bargain was struck on monetary union. Germany agreed, under French pressure, to trade its D-Mark for an ill-defined political union and the goal of a single currency, at the earliest by 1997, at the latest by 1999.

In retrospect, as some senior officials in Brussels admit, Maastricht may have been a bridge too far. The Danish referendum has exposed the gulf between the Europe planned by the technocrats and heads of states and the Europe of the people – a point Mr Jacques Delors, the European Commission president and arch-federalist, now concedes.

More important, the events of the past week have exposed what may be an even more fundamental flaw: the notion, implicit in Maastricht, that a united Germany could be tied down by treaty constraints to the point where Europe co-operation takes precedence over perceived vital national interests.

Perhaps the turning point came earlier this month during an informal meeting of finance ministers in Bath when Mr Helmut Schlesinger, Bundesbank president, and Mr Theo Waigel, Germany's finance minister, were ambushed by their 11 counterparts and urged to lower interest rates to help a general European economic recovery.

"It was a bloodbath," says one participant. At one point, according to another source, Mr Waigel had to restrain Mr Schlesinger from walking out of the meeting, so enraged was the Bundesbank chief by the pressure he was put under. This private arm-twisting may explain, first, the Bundesbank's grudging cut of ¼ percentage point in the Lombard rate this week, and Mr Schlesinger's subsequent comments in an interview – later denied – that he favoured a broader realignment of currencies in the ERM.

Mr Schlesinger's comments helped to propel the emergency meeting of the EC monetary committee which ended at just before 6am yesterday morning and which killed British hopes of persuading the other member states to suspend the operations of the ERM until after Sunday.

The currency game has still to play out. If President Mitterrand's gamble of putting the treaty to a referendum pays off, and there is a Yes vote, there is some prospect of relief for the weaker EC currencies. If the vote is No, further speculative attacks seem inevitable.

In political terms, a Yes vote would put tremendous pressure on all EC states – including Denmark and Britain – to support Maastricht unequivocally and quickly. The problem is that the Danish government wants more time to prepare public opinion for a possible second referendum.

The UK government's position is no less delicate. Faced with growing opposition to the treaty on his backbenches, Mr John Major, the British prime minister, must also do his duty as holder of the six-monthly rotating EC presidency. The risk, says one EC official, is that Britain will find itself once again isolated, as France and Germany debate what comes after Maastricht if there is a No on Sunday.

For this reason, it seems likely that Britain will call a summit of the heads of state shortly after the French referendum. The aim would be to salvage what is left of the treaty, rather than to engage in a full-scale renegotiation; to push for broader European co-operation without necessarily drawing up new Community law; to initiate enlargement of the Community; and to press for completion of important business such as the single market.

This "business as usual" approach is characteristically British. There must be some doubts about whether Mr Major can carry it off.

Crueller realities of life at the top

Philip Stephens assesses the political damage caused by the week's events to John Major and Norman Lamont

Mr John Major is wounded, but not fatally. The same cannot yet be said of Mr Norman Lamont. The chancellor is to stay for now at No 11. We should not underestimate the prime minister's loyalty to his colleagues – witness his stubborn defence of the unfortunate Mr David Mellor. But Mr Lamont, like the heritage secretary, has lost the authority to go with the job.

There is no justice in the assessment. It was the prime minister who staked his government's reputation on DM2.95. It is he who must live with the agonising echoes of a speech just a week ago in which he likened devaluation to betrayal of the nation's future. Mr Lamont was never in his heart convinced there was no alternative to the ERM. He did more than was asked of him in defending the policy.

But those who argue that he cannot be the scapegoat for the failure of the government's economic strategy miss the crueller political reality. The awesome task facing the government is to rebuild something that resembles a coherent policy on the economy and Europe. The judgment of his peers is that Mr Lamont cannot recover the political authority such a task will demand of the chancellor.

They may be proved wrong. Mr Lamont is a resilient politician. But as of now the consensus at Westminster runs as follows: if Mr Douglas Hurd is discounted, there are only two members of the cabinet equal to the present challenge – Mr Kenneth Clarke and Mr Michael Heseltine. At a pinch Mr Michael Howard can be added to the list.

But what of Mr Major? He is devastated by the events of Wednesday. The capitulation was not the U-turn of a cynical politician who saw a fixed rate for the pound as a convenience and devaluation as no more than an awkward moment. He believed in the policy. He gave in on Wednesday night only when he was told by Mr Robin Leigh-Pemberton that there was nothing else the Bank of England could do.

With the benefit of hindsight it is easy to see when the strategy went wrong. If Mr Major was brave enough on Wednesday to raise interest rates to 15 per cent, it was by then too late.

Well before the crises of the past two weeks it was clear that sterling would remain under pressure for as long as the outcome of the French referendum on Sunday remained uncertain. Senior officials were privately warning of that possibility in July. Presumably they suggested a pre-emptive interest rate rise. Presumably Mr Lamont – and/or Mr Major – rejected the idea for fear of a backlash on the Tory backbenches.

But the government cannot afford to indulge in post-mortems. The suspension of sterling's membership of the ERM has left a gaping hole in its economic strategy. It threatens to destroy Mr Major's painstaking attempts over the past two years to persuade the Conservative party that it must come to terms with Europe.

Anti-Europeanism – particularly paranoia about Germany – is back in fashion among Tory backbenchers

Yesterday's cabinet meeting was a holding operation. The carefully orchestrated display of unity – and genuine commiseration with the chancellor's predicament – was designed to allow the government to catch its breath. The cabinet's Euro-sceptics, notably Mr Michael Portillo and Mr Peter Lilley, by all accounts kept their counsel.

The subsequent statement that sterling would rejoin the ERM as soon as conditions are favourable was an attempt to buy time. For all his anger at the behaviour of the Bundesbank, Mr Major still sees the ERM as the only available anchor for a credible anti-inflation strategy. Mr Lamont, too, is unconvinced that sterling can be uncoupled permanently from the D-mark.

Beyond that nothing can be decided until ministers have had time to assess the reaction of the markets to the French referendum. Nobody knows where sterling will be next Tuesday morning – nor whether the ERM can survive in its present form.

But Mr Major does not have much time to map out a new course. He should not underestimate the angst in his party. It is not only those who have consistently opposed the strategy who are asking now what on earth was the point of all the pain of the past two years.

There are the usual suspects – Lady Thatcher and Lord Tebbit among them. But others such as Mr Kenneth Baker, the former home secretary, are also preparing to step into the power vacuum. They are confident this week's debacle will provide a fertile recruiting ground for their efforts to disown permanently the ERM as a prelude to ditching Maastricht. The Euro-sceptics have a spring in their step. Their ranks are being swelled by the uncommitted on the Tory backbenches.

They are peddling an attractive potion. With the pound floating freely, interest rates could be cut to a level which would get the economy moving again. Small businesses, the bedrock of the government's support, would stop going bust. The housing market would pick up. Unemployment might stop rising. Monetary targets could be reintroduced to guide anti-inflation policy. And if prices crept up a little faster, what harm? Anti-Europeanism, and more particularly paranoia about Germany, has come back into fashion on the Tory backbenches. It has been fed this week by Downing Street's ill-judged public onslaught on the Bundesbank. The question being asked by some colleagues is that if Mr Major blamed the Germans for the government's humiliation, why on earth should he risk a repeat performance by taking sterling back into the ERM?

The answer is that he still thinks the permanent defeat of inflation offers the only real prospect of reversing Britain's long-term economic decline. He saw enough of the sterling crises of the 1980s to understand that a free-floating pound does not insulate the government from the foreign exchange markets. He believes fervently that Britain's long-term future can be secured only within the mainstream of Europe. How long will business be able to cope with a gyrating exchange rate once the European single market is in place?

So his strategy must be to start again from scratch: to rebuild confidence in sterling as a prelude to its return to the ERM and, after a decent interval, steer the Tory party back into the belief that Europe represents an opportunity rather than a threat.

It will not be easy. Cabinet ministers are hinting it will be months before the markets have settled sufficiently for sterling to be fixed with confidence at a new D-mark parity. But the longer the pound is outside the ERM the harder Mr Major will find it to persuade his party that it should rejoin. There will be rebellions. But the prime minister has seen at close hand the alternatives. It was the failure of Lady Thatcher's approach to Europe and the economy that put him in Downing Street.

Joe Rogaly is in the US

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Level of UK aid budget

From Mr Adrian P Hewitt.

Sir, So now we have it from no less an authority (and hard taskmaster) than the managing director of the International Monetary Fund, Mr Michel Camdessus: a doubling of the UK's foreign aid budget could easily be afforded. He would give us "until the end of the century" to reach 0.7 per cent of gross national product (Monday Interview, September 14).

Currently, UK aid stands at $3.25bn and it has been stagnating at around the current 0.32 per cent of GNP for a decade. To achieve a doubling to 0.7 per cent in eight years, and incidentally to match the French, we should need to increase the budget by just over a twelfth annually – that is to add currently a mere $280m each year (if I rather mischievously assume the economy does not grow; more, more affordably, if it does). I do hope both Mr Michael Portillo, chief secretary to the Treasury, and Baroness Chalker, overseas development minister, are readers of the Monday Interview as they lock horns for the autumn public spending round, because Britain needs to start now to meet the Camdessus target. Not since the days of Bob Geldof has public support been so strong for increasing development aid and sustained action to alleviate poverty.

Adrian P Hewitt,
deputy director,
Overseas Development Institute,
Regent's College,
Regent's Park,
London NW1 4NS

Mr Jonathan Hoffman

The final sentence of Mr Jonathan Hoffman's letter yesterday should have read: "That is why the ERM has no choice but to go forwards to Emu, or backwards to more frequent realignments; the present state of limbo is completely unsustainable." By omitting the words "or backwards" we incorrectly suggested that his view was that the only way forwards was to realignments rather than to monetary union.

Time to remove UK monetary policy from political arena

From Dr Rosalind Altmann.

Sir, The government's policy for fighting inflation is in tatters. European monetary co-operation has failed due to the incompatibility of a German post-unification boom with the slow-down in other economies. But the goal is still important and the markets need to be convinced about Britain's anti-inflation resolve. So how can credibility be restored?

The time has surely come to make the Bank of England fully independent, handing over to it the conduct of monetary policy. This should now be made an urgent priority and the intention to do so should be announced as soon as possible. It could hardly do a worse job!

The Bank of England could reassure markets of its resolve by maintaining a cautious monetary policy, but in the context of the protracted economic weakness at home, rather than exceptional circumstances overseas. Britain's interest rate policy would then be in the hands of a body which should ensure that Britain's interest rates are determined by the inflation pressures in our own country – but irrespective of political time-tabling.

After all, is this not what the most respected independent central bank of all has been doing so successfully for itself these last two years?

Rosalind Altmann,
director, global equity strategist,
County Natwest Investment Management,
43-44 Crutched Friars,
London EC3N 2NX

From Mr F Marshall.

Sir, I am the managing director of an engineering company producing machinery for the plastic industry. We export about 80 per cent of our output all over the world.

I feel the time has come for somebody in industry to speak up and stop the meddling of politicians with exchange rates, interest rates etc.

To put UK manufacturing companies on an equal basis with our competition in the European Community, the sensible thing to do is to establish one rate of interest for all countries in the Community and one monetary unit (be it an Ecu or any other denomination).

If this is achieved it will stop the foreign exchange speculators making huge profits, as they do at the moment with the present system. It will also stop a country in the Community devaluing its currency, which obviously gives it an immediate advantage over its competitors in other countries.

F Marshall,
Speedex (Engineering),
Hodgson Lane,
Drighlington/Bradford,
West Yorkshire, BD11 1JS

Sound theory, but maybe impossible in practice

From Mr Nathan Gelber.

Sir, Barry Riley's argument (The Long View, September 12) that pension fund trustees and their portfolio managers should take into account changes in investment fundamentals – ie, make major market timing decisions and asset allocation shifts – deserves further scrutiny. Although in theory it seems to be a sound argument, in practice, it appears to be extremely difficult, if not impossible, to implement.

Based on our experience, gained through monitoring a large number of fund managers, we have not yet had conclusive evidence that adding value on a consistent basis through market timing – ie, making significant shifts between asset classes in anticipation of extreme price movements – can be achieved. Given this environment, it would require only a few poor decisions to deflate longer results to the point where real rates of return would fail to have been achieved and the trustees would be unable to meet their real liabilities.

Pension fund trustees and their portfolio managers can afford the longer-term perspective. So it would be more appropriate to gauge the risk acceptable to their specific requirements, formulate an asset allocation policy which is consistent with these criteria and adhere to it, even when the stock market is at its ugliest. This does not mean pension fund trustees or their managers should necessarily follow the crowd. Instead they should devote more effort to addressing their specific liability structure. I would be surprised if their individual characteristics would mirror the current consensus and this is why the copy-cat mentality is so dangerous.

Nathan Gelber,
chairman,
Stamford Associates,
1 St Katharine's Way,
London E1 9UN

More jobs better than more 'poorer consumers'

From Mr John G Bridge.

Sir, So the World Development Movement believes that the interests of the "poorer consumers" would be best served by making available more low cost textiles from the Far East at the expense of the UK industry, thus creating more "poorer consumers" ("Textile trade rules are attacked", September 14).

How much more positive it would be to provide jobs for these people in wealth-creating manufacturing industries, enabling them to spend their incomes in the shops which could then offer UK goods alongside the imported ones.

John G Bridge,
chairman,
Textile Industry Support Campaign,
Thorncliffe,
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Oldham OL8 1RQ

OBSERVER

Expense accounts

■ Psst. Wanna sell a bank? Just when the City thought that the bottom had fallen out of the second-hand merchant bank market, along come some cheery customers from South Africa.

Over the years lots of firms – ranging from the Hongkong and Shanghai Banking Corporation to the TSB – have been tempted to buy a prestigious City merchant bank and have not always been best pleased with the outcome. However, it seems that even in the depths of a recession there are still people prepared to pay good money for less than prestigious London merchant banks.

Barclays Bank, which rescued the loss-making Allied Trust Bank in 1990, has just sold it for £25m to South Africa's Investec Bank, and Barclays' old South African subsidiary, First National Bank, is said to be close to paying £50m for Henry Ansbacher, which lost £8.2m last year.

Why are the South Africans so interested in these outfits? Most foreign banks coming to London open branches. But not South Africa's banks, it seems. This week, for example, Standard Bank has opened its new London subsidiary with capital of £35m. If it had a branch it wouldn't have had to invest this kind of money because it could have traded off the back of its parent's large South African capital base.

Perhaps the Bank of England feels that it should only give new London banking licences to South African entrants who are prepared properly to capitalise their London business.

If so, buying Henry Ansbacher and Allied Trust Bank makes some sense if they can be bought at a substantial discount to net asset value.

Over the hill

■ Odds at William Hill that Baroness Thatcher will succeed John Major as the next leader of the Tory party shortened yesterday to 16:1. "We have taken a number of bets on her return since Major took over," says Hill, "starting – when she was ousted as prime minister – at 100:1."

Dead letter

■ The pressures now being felt by the Bank of England were not quite so acute 61 years ago this week, when – as Observer reported yesterday – the UK was driven off the gold standard.

The Governor of the Bank of England, the formidable Montagu Norman – was returning from a lengthy convalescence in the US when the Old Lady decided it could hold on no longer.

Anxious to keep him informed, but fearful of security leaks, officials sent an artfully worded cable to the Governor on his transatlantic liner. "Sorry we have to go off tomorrow and cannot wait to see you before doing so."

Unfortunately, the great man completely misunderstood the message and – according to the Bank's official history – it was only after landing at Liverpool that he realised that the international monetary structure for which he had striven for so long had collapsed.

Not all bad

■ Renault Véhicules Industriels, an arm of the French carmaker, has come up with one of the less attractive examples of franglais. Yesterday's interim statement mentions the 1991 first half pre-tax losses of FFr128m "après badwill".

Badwill? Yes, says Renault cheerfully, it is the opposite of goodwill and, rather than being a bad thing, is actually something of a windfall. It had paid less than it expected to acquire full control (in 1990) of Mack Trucks in the US, so *le badwill* is a pot of money that turned up because the provisions made in advance of the acquisition were too generous.

Vive la difference.

Dutch double

■ No doubt the reasons for the merger of Reed International and Dutch publishers Elsevier are just as the companies say they are – synergy, the opportunity of creating the world's most profitable publishing group and suchlike.

But what a coincidence that Peter Davis, chairman of Reed and chief executive and deputy chairman of the new company, should have a Dutch mother. Not to mention the fact that Reed's finance director Nigel Stapleton has a Dutch wife.

Stress relief

■ Remember the Natural Law Party? That's the organisation preaching transcendental meditation as a means to a better world, which however failed to win a single seat in the April general election.

Even so, the party is still alive and kicking, or perhaps even bouncing – one of its party election broadcasts showed a team of meditators bumping along the ground on their backsides.

Indeed, one of its executive committee members, David Lucas, took the trouble of telephoning yesterday to explain why all the other politicians are unable to get Britain out of its economic mess.

"There will be a continual decay in this country as politicians of the other parties do not have the means to control the situation," he said. "The bottom line is how people feel. We need to change the consciousness of the country, give it some brightness."

The way to do that, apparently, is to get a critical mass of people – a minimum of the square root of 1 per cent of the population – permanently engaged in the Sidhi programme of advanced transcendental meditation, which "would neutralise the stress of the country".

Alas, as that would mean about 750 full-time meditators for the UK, it would cost a good deal of money. But perhaps public-spirited citizens might chip in enough to send at least the cabinet along.

Pass

■ Son: Dad, what's this sterling crisis all about?

Dad: erm …

FINANCIAL TIMES
Friday September 18 1992

Amato announces L93,000bn package to cut costs and raise revenue

Rome drafts austerity budget

By Haig Simonian in Milan

THE ITALIAN government yesterday announced cost-cutting and revenue-raising measures totalling L93,000bn ($75bn) in a 1993 budget package designed to tackle the country's huge budget deficit.

The size of the package disappointed some economists, who had been calling for measures worth between L100,000bn and L120,000bn to counter the impact of higher interest rates and inflation on the state's finances.

The package envisages L43,000bn in spending cuts and L42,000bn in revenue-raising measures, mainly from new taxes and charges. A further L7,000bn is expected in privatisation proceeds. Overall, the government plans to freeze spending next year at 1992 levels. In a stern warning to potential opponents, Mr Giuliano Amato, the prime minister, stressed that the credibility of the government and the lira were linked to his budget plans. "We must restore to Italians our own self-confidence and, for those watching from abroad, confidence in our country and currency", he said.

The bulk of the savings will come from cuts in Italy's exceedingly generous state pensions system, already due to be trimmed under earlier revenue saving proposals.

Under the latest scheme, the pensionable age will be raised from 60 to to 65 for men and from 55 to 60 for women from 55. Further savings will come by freezing a 1.8 per cent pensions rise due in November, while next year's increase in pensions will be linked to the rise in the cost of living, rather than to salary levels, which are normally higher.

Salaries for 3m public sector employees due to re-negotiate their contracts next year will be frozen at this year's levels. Only teachers, with a multi-year package already sealed, will be exempted. There will also be a freeze on public sector hiring.

In an attempt to win the grudging support of union leaders, who were called in to see Mr Amato before yesterday's cabinet meeting, the government put forward measures to clamp down on tax evasion and show that the burden was being spread fairly.

Tax-dodging, rife among the self-employed, will be countered by introducing a form of "minimum tax" to prevent any self-employed individual from declaring an income lower than that of his employees. Free medicine and a variety of other public health benefits will be abolished for those earning more than L40m (about $32,000) a year, while extra charges are to be imposed on large cars, boats and aircraft.

Mr Piero Barucci, the Treasury minister, said the measures were, for the first time in Italy, focused on cutting spending rather than raising income. In the past, ambitious revenue-raising proposals have been diluted in parliament.

Details of the package prompted some recovery in the lira, which had seen its value decline sink against the D-Mark yesterday. On the stock market, prices made up part of the ground lost on Wednesday.

Currencies face ERM pressure

Continued from Page 1

vote was whether the franc would be able to continue to keep its link with the D-Mark, he said.

The Danish and Irish governments also reaffirmed their commitments to the mechanism, arguing that the state of their economies did not justify a devaluation of their currencies.

Some pressure on the punt and the krone, however, came from German investors selling Irish and Danish government bonds because they feared further currency realignments. German investors are estimated to hold between a quarter and a third of Irish government bonds, and up to a fifth of the Danish market.

In Spain, upward pressure continued on interest rates despite yesterday's devaluation amid expectations that a French No vote would necessitate a sharp interest rate rise to keep Spain above its ERM floor.

The Portuguese government said it had no intention of copying the Spanish devaluation.

The Swedish government continued its efforts to shore up its currency, which is outside the ERM but tied to the Ecu. Overnight lending rates to banks remained at 500 per cent, amid government concern about the effect of a devaluation on companies that had made large borrowings in foreign currencies.

Sweden's centre-right government and the country's Social Democratic opposition agreed yesterday to try to negotiate an economic package of cuts to save the krona and calm the markets.

In the British government bond market, short-dated bonds rose sharply on expectations that UK interest rates would move lower.

Italian bond prices also rallied sharply, gaining up to 1½ points, partly on the back of promised budget cuts by the government. But Irish and Spanish bonds fell on devaluation concerns, and German bonds on disappointment about the absence of another rate cut.

The Bundesbank left the discount rate at 8¼ per cent and the Lombard rate at 9½ per cent, the rates to which they were reduced on Monday as part of the package which included a 7 per cent devaluation of the lira.

Question time: John Major, UK prime minister, shouts replies to reporters after yesterday's emergency cabinet meeting to discuss action and policy on sterling

Major attempts to salvage UK economic strategy

Continued from Page 1

to close in London at DM2.6400.

But the reversal of Wednesday's sharp rise in interest rates, and expectations of further rate cuts gave share prices their biggest boost since the Conservative party's election victory in April.

The FT-SE 100 share index closed up 105.6 at 2483.9 in one of the most heavily traded sessions on record. Equity dealers sensed that sterling's effective devaluation and suspension from the ERM could signal a shift in UK government policies in the direction of lower interest rates.

Mr Lamont, who appeared in suprisingly resilient mood after the drama of Wednesday's devaluation, indicated that he wanted to make a series of assessments before deciding when and at what rate to take the pound back into the ERM.

The most immediate would be the pattern of exchange after the results of the French referendum. But the Chancellor wants also a thorough examination by the European Community of the effectiveness of co-operation between governments and central banks within the ERM. Such a debate would focus inevitably on the obligations of the Bundesbank in helping to defend weaker currencies in the system.

Mr Lamont's third concern is to get confirmation that German interest rates - at the root of sterling's problems in the ERM - are set firmly on downward path before fixing a new rate for the pound against the D-mark.

That suggests that the Treasury believes there may be scope for further small reductions in British interest rates over the next few months if the inflation rate continues to fall at the present rate.

Mr Lamont denied that the decision to "suspend" sterling's membership of the ERM represented a formal decision to devalue. But there was conviction behind Downing Street's suggestion that it was possible that sterling could rise significantly before it was taken back into the ERM.

Mr Major's aides were at pains to stress that every member of the cabinet had endorsed the decision to eventually rejoin. The aides were much less willing to say whether there had been a consensus on the timing.

Some ministers were also raising the question of whether Mr Major should re-examine the option of granting statutory independence to the Bank of England - an idea long favoured by Mr Michael Heseltine. The aim would be to restore credibility to the government's anti-inflation strategy. But colleagues said that after his experience in recent days with the Bundesbank, Mr Lamont was disinclined to consider it as an immediate option.

Montedison and Shell in plastics link

By Haig Simonian in Milan and Paul Abrahams in London

THE LARGEST restructuring of Europe's troubled petrochemicals chemicals industry during this recession was proposed yesterday by Montecatini, the chemicals subsidiary of Italy's Montedison, and Shell Chemicals, part of the Anglo-Dutch oil group.

They announced a plan to merge their activities in polypropylene and polyethylene, both plastics feedstocks. The joint venture would link Europe's two largest polypropylene makers.

Montecatini, which also owns the Himont chemicals group in the US, will integrate all its polyolefins activities into the new deal, while Shell, which already has some existing joint ventures in the field, will put in the majority of its businesses.

Full details of the transaction, which will create a unit with estimated annual sales of $3.5bn, have still to be settled.

The deal depends on approval from the European Commission. The Commission is likely to be more worried about the implications for the European polypropylene sector than the polyethylene industry.

Shell has a European capacity of about 550,000 tonnes of polypropylene a year, excluding a joint venture with Germany's BASF, according to Mr Jeremy Chantry, a chemicals analyst at Kleinwort Benson.

In Europe, Montecatini can produce about 500,000 tonnes a year. Together they would have about 20 per cent of the European capacity, which is about 5m tonnes this year.

The new venture is expected to have worldwide capacity of 3m tonnes of polypropylene and 500,000 tonnes of polyethylene.

The move made strategic sense, chemicals consultants said, and Himont's polypropylene technology was the best in the world. The Italian group is short of propylene and Shell has excess propylene capacity.

The transaction should help both companies cut costs in a sector of the petrochemicals business which has been suffering from growing over-capacity and plunging product prices.

Two new European polypropylene plants have come on stream this year, one owned by Exxon of the US, the other by Belgium's Solvay. They have added capacity faster than demand, weakening prices. Only the most efficient plants are making a return on capital.

"This is only the first part of the restructuring of the European petrochemicals sector," said Mr David Glass of Chem Systems, the chemicals consultants. "Most of the industry is losing its shirt. The number of polypropylene producers needs to fall from about 17 at present to 12."

BASF has said it had held internal discussions whether to buy Imperial Chemical Industries' polypropylene business. The move would make sense as ICI uses BASF's technology.

Teaming up with a partner like Shell would be a boost for Montecatini's innovative, but still largely untried, polyethylene technology. Montecatini currently produces around 2.2m tonnes a year of polypropylene and 500,000 tonnes of polyethylene, while Shell makes 1.2m and 500,000 tonnes respectively.

World Weather

		°C	°F
Ajaccio	S	25	77
Algiers	S	30	86
Amsterdam	S	17	63
Athens	S	28	82
Bahrain	S	35	95
Bangkok	C	34	93
Barcelona	C	25	77
Beijing	S	25	77
Beirut	S	28	82
Belfast	F	15	59
Belgrade	S	25	77
Berlin	S	15	59
Biarritz	F	22	72
Bombay	F	30	86
Bordeaux	F	25	77
Boulogne	S	22	72
Brussels	S	20	68
Budapest	S	21	70
Buenos Aires	C	20	68
Cairo	S	31	88
Cape Town	S	23	73
Caracas	F	30	86
Casablanca †	F	23	73
Chicago †	C	20	68
Cologne	S	20	68
Copenhagen	S	16	61
Corfu	S	29	84
Dallas †	S	21	70
Dublin	F	16	61
Dubrovnik		-	-
Edinburgh	F	15	59
Faro	S	26	79
Florence	S	29	84
Frankfurt	S	19	66
Geneva	S	22	72
Gibraltar	C	25	77
Glasgow	F	14	57
Helsinki	R	12	54
Hong Kong		-	-
Innsbruck	S	23	73
Inverness	R	15	59
Islamabad	F	28	82
Istanbul	S	24	75
Jakarta	R	31	88
Johannesburg	S	29	84
Lisbon	S	25	77
London	S	19	66
Los Angeles †	S	19	66
Luxembourg	S	20	68
Madeira	S	24	75
Madrid	S	31	88
Majorca	S	27	81
Malaga	S	26	79
Malta	F	27	81
Manila	C	31	88
Melbourne		-	-
Mexico City		-	-
Miami †	F	26	79
Milan	S	26	79
Montreal †	S	21	70
Moscow	C	14	57
Munich	S	22	72
Nairobi	C	24	75
Naples	S	28	82
Nassau	C	31	87
New Delhi	S	31	88
New York †	S	21	70
Nice	S	25	77
Nicosia	S	30	86
Oporto	R	18	64
Oslo	S	15	59
Paris	S	25	77
Prague	S	16	61
Reykjavik	C	11	52
Rhodes	S	28	82
Rio de Janeiro	C	26	79
Rome	S	25	77
Salzburg	S	22	72
S'Francisco †	C	15	59
Seoul	S	24	75
Singapore	F	30	86
Stockholm	F	12	54
Strasbourg	S	19	66
Sydney		-	-
Taipei	F	32	90
Tangier	S	32	90
Tel Aviv	S	30	86
Tenerife	S	26	79
Tokyo	C	26	79
Toronto †	F	20	68
Tunis	S	29	84
Valencia	S	28	82
Venice	S	25	77
Vienna	S	20	68
Warsaw	F	16	61
Washington †	C	19	66
Zurich	S	20	68

Temperatures at midday yesterday
† Noon GMT temperatures
C - Cloudy Dr - Drizzle
F - Fair Fg - Fog H - Hail
R - Rain S - Sunny
Sl - Sleet Sn - Snow
T - Thunder

THE LEX COLUMN

Inflated hopes

FT-SE Index: 2483.9 (+105.6)

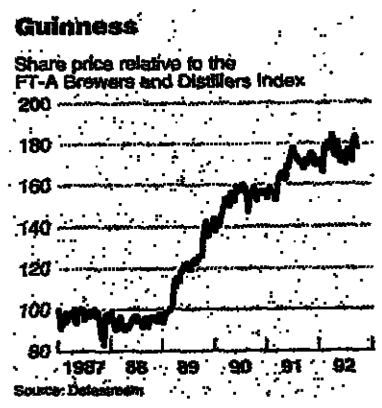
No investor likes to miss a turning point. So it was not surprising to see institutions piling in to UK equities yesterday. But it is worth pausing to examine where we are before making too many assumptions about the future. Base rates, after all, are at exactly the same level as at the end of last week. In the meantime, the effective devaluation of sterling, as measured by the Bank of England's trade-weighted index, has been less than 6 per cent. That combination is scarcely enough to produce 0.75 percentage points of extra growth in a full year. The August unemployment figures may now be merely a footnote in history but they were a reminder of quite how bleak the starting point for that boost had become.

The 105-point rise in the London market can only be justified on the basis that interest rates will now fall further. Similar assumptions are being factored into gilts, where the short end was up between two and three points yesterday while long-dated paper fell sharply on worries about resurgent inflation. The attraction of further rate cuts is plain. They would pave the way for some badly needed growth. That would make some sense out of the devaluation and take the heat out of the recall of parliament and what promises to be a painful Tory party conference.

That the government chose initially only to bring rates back to 10 per cent, however, suggests it may not be in much of a hurry. Perhaps it still hopes forlornly for speedy re-entry to the system. Perhaps it wishes to retain some vestige of anti-inflation credibility. Even outside the system, the UK never managed rates below those of Germany for long. Investors who are betting on a dash for growth could yet be in for a disappointment.

Reed/Elsevier

The cheering of City analysts at the merger of Reed and Elsevier will certainly be echoed by Reed's shareholders. Elsevier's secure revenues from scientific publishing contrast starkly with Reed's exposure to consumer advertising. By merging, Reed shareholders have gained access to Elsevier's high-quality earnings flow in return for giving up some of their potential profits from any cyclical advertising upturn. Given that recovery still seems far away, that looks like a good deal for Reed, though it is at least partly discounted by yesterday's 45p share price rise to 531p.



The deal creates a large group with strong finances which put it in a good position to make acquisitions. The Official Airlines Guide may be a natural purchase to go with Reed's travel-related businesses. Together the companies can invest more heavily in electronic publishing and they may be able to cross-market some products. But there are relatively few cost savings, and it has yet to be proved that the strategic benefits will follow. It is questionable, for example, whether Elsevier's strength as an up-market European publisher will help Reed overcome its difficulties in breaking into the continental consumer magazine market.

The marriage of a growth company with good earnings to a partly-cyclical stock also looks slightly odd at a time when companies such as ICI are breaking up to avoid the growth side of their business being rated as a lowly cyclical. Reed and Elsevier argue that the merger is worth at least the sum of its parts and offers opportunity for the future. They must hope that the markets do not come to think that two plus two equals three.

RMC Group

Anyone tempted to get carried away by the link between financial markets and the real economy should listen carefully to RMC. Sterling's devaluation will obviously boost the impact on translation of German profits in the second half; but judging by yesterday's interim trading statement there is no quick fix to continuing overcapacity and price pressure in the UK. If anything, there is a danger that the illusion of instant recovery will encourage weaker competitors to delay difficult closure decisions, thereby prolonging the agony.

One can sympathise with RMC's determination to hang on to its concrete market share on the grounds that it should be a long term winner: refusal to close plants will nevertheless keep the squeeze on margins in the short term. There is a similar obduracy about aggregates, of a kind which can only make the likes of Tarmac, ECC and Evered Bardon wince. Besides the problem of surplus capacity, any help to volumes from interest rate cuts over the next 18 months will more than likely be offset by lower infrastructure and commercial property activity.

The encouraging bit is that RMC has experienced no slowdown yet in Germany, which accounted for more than 50 per cent of operating profits in the first half. The outlook for next year, though, remains uncertain and elsewhere in Europe Spain and (to a lesser extent) France are flagging. At their current level – up 34p at 448p – the shares are only for genuine long termists.

Guinness

Guinness, as they say, is good for you. But not quite as good as before yesterday's interim figures. A rise of only 1 per cent in pre-tax profits suggests the market was right in worrying about whether Guinness could continue to outperform. There can be no definitive answer till after the recession. Some of Guinness' problems are clearly a reflection of the cycle. In Japan, for example, sliding demand for premium spirits has been compounded by de-stocking in the distribution chain. The first half saw a higher interest charge. That should be offset in the second half by profits from recent acquisitions which are skewed towards the end of the year.

Still, the easy growth in spirits is probably over, and margins are virtually flat at 31 per cent. The US reorganisation following the Glenmore acquisition will take time to bear fruit. Similarly, though margins are growing in beer, the work of absorbing Union Cervecera is not complete and demand in the Spanish market remains weak. Given the company's own caution, it is hard to see why it should trade on a signficantly higher multiple than Grand Metropolitan or Allied-Lyons, though it has scope to continue raising dividends faster than earnings.

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COMPANIES & MARKETS
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INSIDE

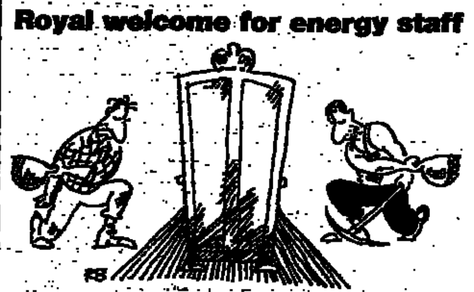
Lufthansa moves off the sidelines

Lufthansa's move to acquire Continental may look odd from an airline which has traditionally shunned the purchase of stakes in other airlines, and is the more surprising since Lufthansa is in the throes of scaling back some operations. But it clearly felt it could no longer sit on the sidelines. Page 23

Christies cuts dividend

Christies International, which owns Christie's the auction house, slashed its interim dividend from 2.3p to 0.5p yesterday. Mr Christopher Davidge, managing director, said in March the lower level of dividends were a base for the future. Yesterday he said: "We are living in uncharted territory". Page 27

Royal welcome for energy staff



On Sunday evening King Carlos of Spain will welcome 4,000 representatives of the energy business to Madrid for the World Energy Congress. The WEC will have a comforting message. Even the most conservative estimates suggest there is sufficient oil for more than 40 years, gas for more than 50, and coal and lignite for centuries. Page 38

Simon says the grass is greener

Four years after first touting itself as an environmental stock, a label which lifted its shares to a 40 per cent premium to its sector at one stage, Simon Engineering of the UK has decided the grass is greener elsewhere. The company is putting its main environmental businesses up for sale. Page 29

Currency moves affects issues

The "safe haven" attraction of the Swiss currency during the current turbulence in the European Monetary System prompted Electricité de France to bring a SFr100m ($76.3m) offering. Elsewhere, JP Morgan Securities said the pricing of Spain's $1.5bn seven-year eurobond, launched on Wednesday, has been deferred to Tuesday. The market was not surprised by the decision, following the failure to attract investor interest in the light of upheaval in European financial markets. Page 25

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
SEHE	380	+	10	Cetelem	814	+	34
Leifheit	396	+	16	Seb SA	421.5	+	13.5
Falls				UFB Locabail	230	+	10
Asko Prf	415	−	18	**Falls**			
Douglas	455	−	10	CGIP	990	−	12
Kaufhof	418.5	−	12.5	Fin Poliet	417	−	13.4
Mannesmann	231	−	12	Paribas	355	−	11
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
[illegible]	$32\frac{1}{8}$	+	$7\frac{3}{4}$	Ichida	674	+	100
Dell Computer	$28\frac{1}{2}$	+	$1\frac{1}{8}$	Inabata	935	+	100
Intel	$64\frac{5}{8}$	+	$\frac{7}{8}$	Mitsui Mining	453	+	80
Nat West ADRs	38	+	$2\frac{1}{2}$	Nikkatsu	821	+	41
Falls				**Falls**			
Apple Computer	46	−	1	Jidosha Buhin	232	−	18
Utd. Tech.	$51\frac{3}{8}$	−	$2\frac{7}{8}$	Yamagata Bank	500	−	40

New York prices at 12.30.

LONDON (Pence)							
Rises				NatWest Bank	357	+	51
Berkeley	224	+	$28\frac{1}{2}$	P & O Defd	344	+	33
British Land	156	+	20	Rank Org	503	+	44
Coats Viyella	193	+	20	Reed Intl	531	+	45
Cowie (T)	$184\frac{1}{2}$	+	$21\frac{1}{2}$	Steel Burrill	184	+	20
Davis Service	161	+	15	Tomkins	271	+	29
English China	387	+	44	**Falls**			
Forte	139	+	20	Brit Fittings	74	−	6
GKN	387	+	34	Hazlewood Fds	87	−	10
Kingfisher	468	+	30	MTL Instruments	275	−	35
LSW	56	+	13	Magnolia	56	−	18
Laporte	482	+	43	SW Elec	375	−	11
Legal & Gen	323	+	24	Welsh Water	430	−	13
Mackay	77	+	18				

Finance minister urges houses to regain investor trust by making market more 'transparent and fair'

Japan's brokers see no profits next year

By Robert Thomson in Tokyo

JAPAN'S 14 leading securities houses do not expect to make a profit for the first half of 1992-93, prompting Mr Tsutomu Hata, the finance minister, to urge the industry to reform itself in order to regain investor confidence.

Nomura Securities, the largest of Japan's Big Four houses, revised its pre-tax profit estimate down from Y20bn ($160m) to zero for the six months ending September, and said it expected an after-tax loss of Y7bn, its first since 1954.

Weak stock prices and low turnover also bruised the country's 10 second-tier brokerages, all of which are cutting staff.

Two other members of the Big Four, Daiwa Securities and Nikko Securities, forecast no pre-tax profits, while Nikko expects an after-tax loss of Y500m, compared with a profit of Y1.2bn last year. Yamaichi Securities expects a pre-tax loss of Y18bn and a net loss of Y17bn, its second successive year of losses.

Yesterday's downward revisions came in spite of confidence in April that the worst of the turmoil in the Tokyo market was over. Brokers had forecast a daily average trading value of Y350bn to Y400bn, but the figure until August was around Y240bn. The industry now expects stock brokerage commissions for the first half to be about 35 per cent lower than a year earlier.

Since emergency support measures were announced last month the market has gained strength and brokers hope this is a sign that earnings will improve in the second half. For the full year, Nomura forecasts a pre-tax profit of Y20bn, down from a previous estimate of Y60bn; Daiwa Y12bn (Y50bn); Nikko Y15bn (Y47bn); and Yamaichi Y1bn (Y30bn).

The brokers plan to take advantage of the emergency measure that relaxed regulations forcing them to disclose potentially embarrassing appraisal losses on their securities portfolios. All the houses said they would not announce these figures.

Mr Hata, who introduced the emergency package, said the brokers must regain the trust of individual investors by making the market more "transparent and fair". He said the industry must prevent a repeat of the scandals that undermined investor confidence, and continue their streamlining programmes.

While the Big Four continue to struggle, most of the 10 leading second-tier brokers face an even more difficult trading environment and are likely to announce further staff cuts and branch closures before the year is out.

All 10 houses have forecast first-half losses, and only Kokusai Securities, which has had particular success in bonds and derivatives, expects a full-year profit, a modest Y2.5bn before tax and Y2bn after tax.

The largest pre-tax losses for the first half are expected at New Japan Securities, Y19.2bn; Kankaku Securities, Y18bn; and Sanyo Securities, Y16.4bn. Yamatane Securities, now arguing with its banks over the funding of its restructuring, forecast a pre-tax loss of Y5.1bn, compared with a loss of Y2.3bn last year.

THE BIG FOUR BROKERS
First-half forecast to end September 1992 against the same period 1991 in Ybn

	Operating Revenue		Pre-tax profit(loss)		After tax profit/loss	
	1992	1991	1992	1991	1992	1991
Nomura	175	246.1	0	39.7	(-7)	(18.1)
Daiwa	130	193.6	0	20.6	0	(10.6)
Nikko	120	165.3	0	12.1	(-0.5)	(1.2)
Yamaichi	98	138.6	(-18)	(5.4)	(-17)	(3.8)

LVMH advances in slowing market

By Alice Rawsthorn in Paris

LVMH, the French luxury goods group which owns a string of prestige brand names ranging from Louis Vuitton luggage to Hennessy cognac, saw net profits rise by 7 per cent to FFr1.29bn ($239m) from FFr1.21bn in the first half of the year in spite of the downturn in the luxury products industry.

The global market for luxury goods, which benefited from buoyant growth for most of the 1980s, has slowed.

It has suffered from the economic instability of its markets, notably the US and Japan, and from changing consumer attitudes in western Europe against the conspicuous consumption of the 1980s.

These problems have affected some areas of LVMH's activities, particularly its wine and spirits interests. Guinness, the international drinks group, has a 24 per cent stake in the company.

LVMH said yesterday the weakness of the Japanese economy hit sales of luggage and cognac in that country.

LVMH, one of the big players in the champagne industry, has also suffered from the sluggish state of the champagne market in western Europe.

The group, which is chaired by Mr Bernard Arnault, one of France's most dynamic businessmen, saw overall group sales in the first six months of this year rise by 4.5 per cent to FFr9.68bn from FFr9.26bn in the same period last year.

Operating income showed a marginal increase to FFr2.35bn from FFr2.34bn

Wines and spirits, which have borne the brunt of the economic slowdown, suffered a fall in sales to FFr4.44bn from FFr4.76bn while operating profits slipped to FFr1.26bn from FFr1.51bn.

LVMH, which has refused to comment on speculation that it has extended its drinks interests with a 7 per cent stake in Grand Marnier liqueur, said cognac sales in Japan had shown a small recovery during the summer.

Luggage and leather products were also affected by Japan's instability, but managed to increase operating profits to FFr890m from FFr827m on sales up to FFr2.33bn from FFr2.15bn.

Perfumes and cosmetics benefited from the launch of Dune, a new Christian Dior fragrance, and Amarige, under the Givenchy umbrella.

Sales rose to FFr2.54bn from FFr2.05bn and operating profits to FFr330m from FFr121m.

LVMH earlier this week relaunched Miss Dior, one of its classic scents.

Guinness, Page 22

A marriage of two rich families

Matchmakers behind Reed Elsevier say it will be in top five of world's publishing groups, write Raymond Snoddy and Ronald van de Krol

Elsevier, the Dutch publisher which is to merge with Reed International, the UK publisher, has been looking for an English-speaking partner for years.

The company, the most profitable Dutch publisher and the world's leading publisher of scientific journals, was as big as it was going to get in Holland. The only way forward was through acquisition or marriage.

"Stringing little pearls into a necklace with £10m [$18m] to £30m acquisitions can take years," said Mr Pierre Vinken, Elsevier chairman who will, if all goes well, become chairman of the united company Reed Elsevier on January 1, 1993.

It will be a company with a combined market capitalisation of £5.2bn or Fl 16.3bn. Mr Vinken and Mr Peter Davis, the Reed chairman who will be chief executive and deputy chairman, believe the new company will be in the top five of the world's publishing and information companies: third behind Time Warner and Dun & Bradstreet on market capitalisation; on cash flow, fifth; but on pre-tax profits it will be number one.

Talks with Reed go back to the early 1980s. There were serious talks about a merger in 1987 but Mr Davis said yesterday "somehow we couldn't make it fly".

Then the late Robert Maxwell bought 10 per cent of the shares in Elsevier before realising that they did not come with voting rights.

In September 1988 Pearson, owners of the Financial Times, announced an "engagement leading to marriage". Both companies took stakes in each other but in less than three years it was all off mainly because the two companies had grown mutually incompatible as the pound fell against the guilder and the Elsevier share price grew faster than Pearson.

Yesterday Mr Vinken said: "Anyone would go for a marriage of two rich families and let them sort it out."

The practical sorting out should not be that difficult. "No cash, no premium, no dilution," pointed out Mr Davis, who will take over as chairman of the united company in 1995 when Mr Vinken retires.

Reed and Elsevier will each have 50 per cent of a new holding company while each operating business will retain separate stock market listings. But because Reed has a larger capitalisation than Elsevier, it will receive a significant minority stake of in the Dutch company.

For Reed the merger achieves two of its main strategic aims – a much stronger presence in Europe, and in high value subscription-based information publishing such as scientific journals.

For Elsevier, it is a chance to extend to areas where Reed is strong such as business and consumer publishing.

Mr Eric de Bellaigue, publishing analyst at stockbrokers Panmure Gordon, said yesterday he thought the merger held "reasonable promise" for Reed as they were buying into higher value publishing.

"It looks less advantageous for Elsevier," he added.

Elsevier may be moving into areas such as business and consumer publishing which are dependent on volatile advertising revenues. But the Dutch company is making its deal at the low point of the cycle and a more important factor in the longer term is the financial clout the combined group could bring to the rapidly developing technologies of electronic publishing.

The combined company will also carry clout as a predator if it choses to go on the acquisition trail.

Official Airline Guides, one of the US businesses bought by Robert Maxwell, could be an early target because Reed is already in travel information.

"We are the logical buyer but not the logical people to pay a premium," Mr Davis said.

Reed and Elsevier will continue to operate as separate companies. Two businesses will be combined: the business-to-business magazine publishing activities of Elsevier and Reed in the US; and the scientific publishing business of Butterworth Heinemann will be combined with the much larger Elsevier Science Publishers, which includes Pergamon bought from Robert Maxwell last year.

Elsevier's shares fell nearly 10 per cent to Fl 105.20 on the news of the merger, as investors acted on worries that the combined group would be more vulnerable to the vagaries of the business cycle than Elsevier has been on its own.

Concern about future profits at Elsevier is acute because of the company's good record over the past 10 years, when earnings have shown compound growth of more than 15 per cent per year.

"In a 'bad' year Elsevier posts growth of only 10 per cent and in a 'good' year it exceeds 20 per cent," a Dutch analyst said.

In turn Reed has been producing operating margins of more than 16 per cent in spite of the recession.

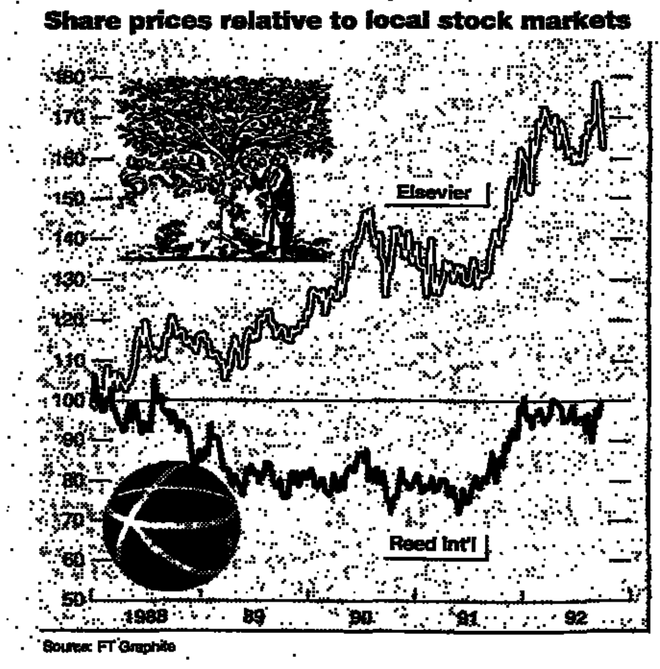
At Reed's London headquarters yesterday all was harmony over the future prospects for the world's latest Anglo-Dutch multinational.

Lord Blakenham, chairman of Pearson, even sent his good wishes. "I wish them well," he said. Asked if there was not any regret that it was Reed and not Pearson consumating a merger, Lord Blakenham added: "Size isn't everything."

Lydie van der Meer

Full engagement: Pierre Vinken (left) of Elsevier meets Peter Davis from Reed

Share prices relative to local stock markets



Source: FT Graphite

RMC fall held to 11% by Germany

By Andrew Taylor, Construction Correspondent

A 26 PER cent rise in German profits during the first six months of this year was not enough to offset an even greater fall in British profits, RMC Group, the world's biggest concrete producer said yesterday.

Overall group pre-tax profits fell 11 per cent to £62.1m ($110m) in spite of a 9 per cent rise in turnover to £1.4bn.

The group said the disparity between the strength of the German and British businesses underlined the wide gap between the economic performance of the two countries, particularly their construction markets.

German profits rose from £32.1m to £40.5m accounting for half of group operating profits of £80.6m, compared with £86.6m last time. This was using an exchange rate of DM2.90. The sterling contribution from Germany would have been even higher if current exchange rates had been used, said Mr Jim Owen, managing director.

By comparison, British profits fell more than half to £8.8m accounting for slightly more than a tenth of group operating profits.

The group is to pay a maintained interim dividend of 6.6p which was almost twice covered by earnings of 12.1p, down from 15.5p. Its shares rose 34p to close at 443p as UK stocks soared yesterday.

There was no sign of recovery in the UK construction market, said Mr Owen.

He expected British sales of ready-mix to fall 5 per cent next year with UK construction output unlikely to recover until 1994 at the earliest.

German construction by comparison remained strong and earnings in the second half of this year were expected to be every bit as good as the final six months of last year.

Mr Owen said a fall in construction output in western Germany next year would be more than compensated for by higher investment in infrastructure in the former East Germany.

Profits from other European countries in the first half dipped from £28.6m to £23.6m due mainly to lower sales in France and Spain. Profits from Israel however were higher while there was also an improvement in south eastern parts of the US. Lonestar cement operations however suffered in northern California.

Lex, Page 20

Saint-Gobain net profits rise 9.8% to FFr1.35bn

By Alice Rawsthorn in Paris

SAINT-GOBAIN, the French glass and materials group, saw net profits rise by 9.8 per cent to FFr1.35bn ($210.18m) in the first half of the year, compared with FFr1.22bn in the same period last year.

The group benefited from the acquisition of Oberland, the German glass maker, last year.

Oberland's contribution helped to offset the sluggish state of the international building materials market, which has been hit by the slowdown in the construction industries in North America and western Europe.

Turnover rose by 3.6 per cent in the interim period to FFr38.77bn from FFr37.41bn, and operating profits increased to FFr3.69bn from FFr3.58bn.

Income from industrial investments fell to FFr2.14bn from FFr2.27bn, while income from financial investments fell to FFr1.09bn from FFr1.34bn.

The glass treatment divisions showed growth during the first half, although Saint-Gobain's construction materials interests suffered from slowdowns in North America and Brazil.

The group's paper and reinforced fibre businesses were hit by a fall in prices. Ceramics were affected by the problems of the capital goods sector.

Originally the group had hoped to reduce its debt-to-equity ratio from 56 per cent last year to about 40 per cent by the end of this year. However Mr Jean-Louis Beffa, chairman, warned earlier this year that it would be unable to achieve its target.

The debt/equity ratio fell to 55 per cent on net debt of FFr20.3bn at the end of the interim period, from 62 per cent on FFr21.9bn at the same point in 1991.

● Clarins, the French skin-care products manufacturer, yesterday announced a 20 per cent increase in net profits to FFr130m from FFr108.2m in the first half of the year.

Clarins said that it still hoped to achieve its aim of 15 per cent growth for the year, in spite of the difficult state of the international market-place.

Guinness profits flat due to tough conditions

By Jane Fuller in London

TOUGH conditions in important markets and higher interest costs made for flat interim profits at Guinness, the international drinks group.

Sir Anthony Tennant, chairman, said: "Recession remains obstinately present in many major markets." As a result, growth in the group, with 85 per cent of sales outside the UK, would not match that of the recent past. (Pre-tax profit more than doubled between 1987 and 1991.)

Pre-tax profit inched ahead to £353m, compared with £350m, on sales up 5 per cent to £1.75bn.

Trading profit advances of 7 per cent in spirits and 16 per cent in brewing were offset by £30m of extra interest payments related to acquisitions.

Sir Anthony said profits of the companies purchased were biased towards the second half. Profits would also be protected by cost-cutting.

As a show of confidence in the group's longer-term prospects, the interim dividend was pushed up 10 per cent to 3.35p. This was covered 3.8 times by diluted earnings per share of 12.6p, up from 12.3p.

The spirits division, United Distillers, increased trading profit from £283m to £303m on sales of £981m, up 6 per cent. This included £4m profit and £95m sales from acquisitions made in the second half of last year, including Glenmore Distilleries in the US which allowed rationalisation of the group's US operation.

Mr Anthony Greener, chief executive and chairman designate, said there had been a downturn in Japan "in the high end of the bar trade" because of cuts in corporate entertainment. The UK spirits market fell 10 per cent.

The contribution from LVMH, the French luxury goods group in which Guinness has a 24 per cent stake, fell from £44m to £40m because of increased interest costs following the conversion of loan stock.

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RVI first-half losses rise to FFr437m

By William Dawkins in Paris

RENAULT Véhicules Industriels (RVI), the struggling French state-controlled truck maker, yesterday announced far worse than expected losses, in spite of a reduced deficit at Mack, its US subsidiary.

Pre-tax losses at RVI rose to FFr437m ($90.85m) in the first six months of the year. This was nearly three and a half times the FFr128m loss it made in the first half of 1991, before a FFr156m extraordinary contribution from its acquisition of the outstanding majority stake in Mack, for which RVI paid less than it had provided for.

RVI is unlikely to make an overall profit this year, after the small FFr23m net surplus it reported in 1991, warned Mr Marc Randon, group secretary-general.

He attributed the setback to a decline in European sales, down 13 per cent against the first half of last year and 32 per cent below the levels achieved in the first six months of 1990. Those figures exclude Germany, where three quarters of the market is controlled by the national truck industry.

RVI group sales fell by 3.4 per cent to FFr13.36bn from the FFr13.88bn reported in the first half of 1991, on which operating losses rose to FFr301m from FFr106m.

Over the same period, restructuring costs climbed to FFr136m from FFr22m, because of the 1,000 French job losses announced last April.

RVI warned that more cost cuts would be needed, although it planned to hold the research and development budget at current levels and to invest in enlarging its sales networks, especially in northern Europe.

RVI's European branch saw a plunge in operating profits to FFr151m from FFr484m, while Mack reduced its operating losses to FFr83m from FFr102m.

The US truck market was showing signs of recovery, but intense price competition was affecting the profits of all producers there. Mr Randon said the objective was to return the US subsidiary to break-even by 1994.

RVI is 55 per cent owned by Renault, with the remaining 45 per cent held by AB Volvo, parent company of the Swedish automotive group.

Philips details plans for launch of digital compact cassette

By Ronald van de Krol in Amsterdam

PHILIPS, the Dutch electronics company, said that its long-awaited new audio product, the digital compact cassette (DCC), will be launched in Japan next week and in four European countries in the second half of next month.

The company had originally planned a worldwide launch for this month, but was forced to postpone due to what it described as minor problems in pilot production of the new DCC player.

Philips said US sales of DCC will start in the first week of November. It confirmed earlier statements that the initial European launch in the second half of October will focus on Britain, the Netherlands, France and Germany.

The DCC player that is to go on sale in Japan on Monday will cost the equivalent of $799. This suggested retail price will also be adopted in the US and Europe.

Philips, which is counting on the product to help revive its flagging consumer electronics business, will face head-on competition from a rival product, the Minidisc, which has been developed by Sony of Japan and which is scheduled to reach shops in key international markets in November.

The DCC, unlike an earlier Philips invention, the compact disc (CD), is recordable. The company said yesterday that a 90-minute blank tape will cost $9.99.

DSM in negotiations to buy Bristol-Myers Squibb unit

By Paul Abrahams

DSM, the Dutch chemicals group, is in negotiations to buy fine chemicals business of Bristol-Myers Squibb's German subsidiary. DSM did not disclose terms or the sales figures of the businesses to be acquired.

The operations DSM plans to acquire involve the manufacture of intermediates for antibiotics, cardiovascular drugs and diagnostic agents.

The fine chemicals facilities at Regensburg, Germany, would be incorporated into DSM's Andeno fine chemicals division, the company said. Pharmaceuticals production at Regensburg would remain part of Bristol-Myers Squibb.

The move is part of a trend for pharmaceuticals groups to dispose of non-core activities. Chemicals groups have been anxious to acquire fine chemicals and speciality activities.

DSM has recently launched a corporate strategy called DSM 2000 aimed at focusing the group's operations.

The company announced last month it planned to sell the US operations of Pixley Richards, its plastics moulding and assembly subsidiary.

The company is also understood to be looking for a partner for its European fertiliser business.

It is Europe's seventh-largest nitrogen fertiliser producer, and operates two Dutch ammonia plants with more than 1m tonnes a year capacity.

Legal & General returns to profit

By John Authers in London

LEGAL & GENERAL, the life assurance group, called for the UK to stay outside the exchange rate mechanism of the European Monetary System yesterday as it reported a return to profits.

First-half pre-tax profits were £74m, compared to a loss of £56.1m a year earlier.

The turnround was due mainly to exceptional gains and sharply lower losses from general insurance.

It is paying an unchanged interim dividend of 6.13p.

Mr David Prosser, chief executive, said 8 per cent base rates would be more realistic.

"Having moved down to 10 per cent we have the benefit of lower sterling. I personally think this is an opportunity to take sterling even lower," he said.

Analysts, who were in general guarded in their response to the results, said Legal & General was strongly exposed to economic uncertainty, because of of both its mortgage guarantee and investment management business.

Mr Roger Harvey, of Kleinwort Benson, pointed to their exposure to the housing market, and said: "One of the problems for them is that the factors which most influence their profits are out of their control."

Details, Page 24

Frans Maas up 6% to Fl 118.5m

KONINKLIJKE Frans Maas Groep, the Dutch international transport company, reported first-half net profits up 6 per cent from the year earlier period, to Fl 118.5m ($70.86m) from Fl 117.5m in the corresponding period last year, AP-DJ reports from Amsterdam.

The company said profit was bolstered by higher sales and better operating margins in its network services and logistics services areas. Sales grew 6 per cent to Fl 675.3m from Fl 634.6m, in spite of weaker turnover in its freight and transport services division.

French banks' profits flat

THE SLUGGISH state of the French banking sector was yesterday highlighted by flat first-half profits from two banks, Crédit du Nord and Banque Française de Commerce Extérieur, writes Alice Rawsthorn.

Crédit du Nord, the retail banking arm of the Paribas financial group, broke even in the first six months of 1992 with a fall in net profits to FFr1.8m ($330,000) from FFr103.3m in the same period of the previous year.

Net banking income rose by 10.7 per cent to FFr3bn and gross profits increased by 14.5 per cent to FFr1bn. However, an increase in provisions from FFr590m to FFr804m ensured that net profits fell.

Crédit du Nord said it was on course for an increase in profits for the full financial year unless the economic environment deteriorated.

Nord-Est, an industrial holding company also owned by Paribas, returned to the black in the first half with a net profit of FFr568m, compared with a loss of FFr25m in the first six months of 1991.

Banque Française du Commerce Extérieur held net profits at FFr103m during the first half and said that it anticipated an increase in profits for the full financial year.

INTERNATIONAL COMPANIES AND FINANCE

Lufthansa wakes up to global game

Paul Betts and Nikki Tait examine the German airline's bid for Continental

LUFTHANSA, one of the sleeping giants of the aviation industry, has finally decided to join in the world airline game of monopoly with a $400m proposal to acquire Continental Airlines of the US in partnership with Mr Marvin Davis, the Californian financier.

The move comes barely a fortnight after the German national carrier, the world's fifth-largest in terms of revenue, unveiled a restructuring programme to cut operating losses which are expected to rise to DM1.2bn ($807m) this year from DM800m in 1991.

On the surface, the bid may look odd from an airline which has traditionally shunned buying stakes in other airlines, preferring to negotiate commercial and marketing agreements to strengthen its international network.

It is all the more surprising since Lufthansa is in the throes of scaling back operations, delaying delivery of new aircraft and planning to cut 6000 jobs over the next two years.

But the carrier clearly felt it could no longer sit on the sidelines and watch its main competitors on both sides of the Atlantic jostling to position themselves in an increasingly global airline market.

The big three US carriers – American, United and Delta – have all been aggressively expanding their European operations. For Lufthansa, the biggest threat has come from Atlanta-based Delta, which last year acquired the European routes and Frankfurt hub of the now defunct Pan Am.

The German carrier has also bitterly complained that the current bilateral aviation agreement between Germany and the US is heavily unbalanced in favour of US carriers.

Mr Jurgen Weber, Lufthansa's chairman, has campaigned vigorously to persuade his government to renegotiate the agreement with the US.

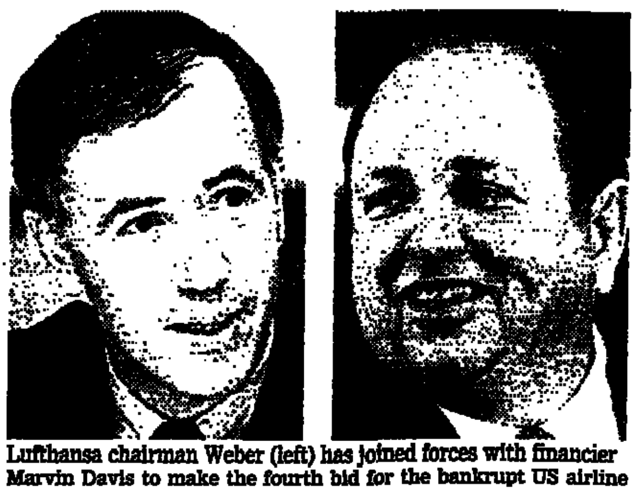
But the threat has not only come from the American side. BA, which Mr Weber views as his principal European competitor, is seeking to strengthen its position in the US market with its proposed $750m investment in USAir while challenging Lufthansa in the German market through its Deutsche BA German airline venture.

Dutch carrier KLM, another big Lufthansa competitor, has been strengthening its ties with Northwest Airlines of the US. The "open skies" agreement reached last week between the Netherlands and the US is also expected to give KLM an additional boost.

However, while seeking to put his house in order at home, Mr Weber has also started looking more aggressively at forging alliances and buying equity stakes in other carriers to secure his group's long-term future.

This summer, Lufthansa's Condor unit took a 26.5 per cent stake in Lauda Air, the Austrian carrier founded by Nikki Lauda, the former world motor racing champion.

Mr Weber has also been considering a joint airline venture in Moscow which would challenge directly BA's plans to set up an international airline with Aeroflot called Air Russia. Lufthansa is also considering acquiring a stake in Malev, the Hungarian airline.



Lufthansa chairman Weber (left) has joined forces with financier Marvin Davis to make the fourth bid for the bankrupt US airline

Now comes the bid for Continental. Of all the US airline bankruptcies, Continental's has probably been the most complex and, in many respects, the most interesting.

When Continental filed for protection under Chapter 11 of the US Bankruptcy Code in late 1990, it was clear that the airline comprised a mixed bag of corporate possibilities and drawbacks.

On the plus side, Continental operated a fairly attractive network, especially in terms of its Far Eastern route authorities. It also possessed a low operating-cost structure – a hangover from the days when Mr Frank Lorenzo, notorious for his union-busting strategies, ran and owned the airline.

On the minus side, Continental was burdened by enormous debts – another Lorenzo bequest and the proximate cause of the bankruptcy filing. These amounted to $2.2bn of on-balance sheet borrowings, and approximately $4bn-worth of off-balance sheet aircraft operating leases.

A second drawback was the extent to which Continental's fate was intertwined with that of Eastern Airlines, another ailing carrier formerly run by Mr Lorenzo which finally grounded its fleet in early 1991. Finally, Continental's reputation among the flying public was poor.

Periodically over the next 18 months, Continental held talks with a variety of interested suitors and investors. These ranged from Northwest Airlines to the bankrupt Trans World Airlines and even British Airways.

However, it is only over the past six months that progress has become evident. In February, Continental filed a reorganisation plan which essentially proposed slashing long-term debt from about $5.8bn to $1.7bn, and passing equity ownership of the reorganised company to unsecured creditors.

With its reorganisation scheme starting to take shape, interested investors began to supply more serious bids.

The first came in July – from an investor group headed by Charles Hurwitz, a Texas-based businessman. This was accepted by Continental and, technically, has preliminary approval from the bankruptcy court. However, the Hurwitz offer was quickly followed by a proposal from Mr Alfredo Brener, whose family owns a sizeable stake in Mexicana Airlines. Last month, Air Canada – in conjunction with another Texan investment group – joined the party. Then, this week, the Lufthansa/Martin Davis proposal arrived.

All four proposals are somewhat similar in design. The investors would put up cash in return for a majority equity stake in the carrier once it emerged from bankruptcy, with creditors being offered a minority interest. This would be done in conjunction with the airline's reorganisation plan. The investors would also receive loan notes, backed by Continental assets, which they would probably sell on to other investors. The total face value of these packages has steadily risen from $350m to $400m.

But the story is unlikely to end here. Continental's board has a fiduciary duty to examine all offers and pick the best. There is increasing pressure from the bankruptcy judge, Ms Helen Balick, to move matters along, but no date has even been set for the airline to deliver its preferred solution to the court. In fact, technically, a new offer could be delivered up until five days before Continental's reorganisation plan is confirmed.

ECGD puts sovereign debt up for sale

By Richard Waters and David Dodwell

THE UK's Export Credit Guarantee Department has put part of its £6.4bn ($11.32bn) of sovereign debt up for sale. This is its first attempt to sell off part of the portfolio it took on through debt reschedulings by lesser developed countries (LDCs).

The ECGD, which refused to say how much of the portfolio it is trying to sell, said it had written to a number of financial institutions to seek offers for the debt.

The sale of the debt was made possible by an agreement to forgive part of the debt of lower middle-income and very poor countries, prompted last year by UK prime minster John Major. This agreement, known as the "Trinidad Terms", also allowed for a "modest" proportion of the rescheduled debt to be sold.

The ECGD's ability to sell off part of its sovereign debt is helped by its provisioning policy. In recent years it has been following the Bank of England's "matrix", which was developed to direct provisioning by commercial banks.

Unlike many continental credit insurers, the great majority of the ECGD's debt has already been fully provided for, so all cash raised by the sale of debt will trim the provisions it has to carry.

The "Trinidad Terms", adopted in 1991, cover 20 of the poorest and most heavily indebted countries, including Morocco, Nigeria, Peru, Philippines and Poland.

Bankers active in the LDC debt market in London confirmed they had been contacted by the ECGD, but refused to comment on the size of the proposed sale.

One commented that there was only a very thin market in the debt of most of the countries covered by the Trinidad Terms, implying that the ECGD could be offered far less than recent prices quoted in the market.

Mexican bonds hope to break new ground in US

By Richard Waters in London and John Barham in Buenos Aires

THE FIRST Mexican bond issue in the US for a decade – and the first by any sub-investment grade foreign borrower – was launched yesterday.

The $250m issue, led by Goldman Sachs, marks an attempt to develop a new US investor base for Mexico, which carries a split rating of BBplus from Standard & Poor's and Ba2 from Moody's.

A roadshow has been mounted in eight US cities recently to take the issue to insurance companies and pension funds which until now have not bought Latin American debt.

The ten-year bonds are expected to be priced before the end of this week at a yield over Treasuries of less than 2½ per cent.

Meanwhile, Argentina still plans to return to the Eurobond market later this month with a $200m-300m issue, despite the failure of the issue to emerge so far.

Central bank officials say they are negotiating details of the issue – the country's third this year – with the manager, Credit Suisse-First Boston. However, they expect to place the bonds at a maximum of five years, with a spread of less than 3 per cent over the benchmark five-year US Treasury bonds.

The Argentine government's new foray into the bond market follows its successful sale last year of $500m-worth of Eurobonds in two placements handled by JP Morgan. Officials are encouraged that Argentina's cost of borrowing is falling, reflecting the decline of inflation to below 20 per cent a year and a forecasted 8-10 per cent growth in 1992.

Proceeds from the new bond sales will be used to partially roll over maturing bond debt. Officials deny that Argentina is increasing its Eurobond borrowings too fast. They argue the new placement is small in comparison with the estimated $4-$6bn in bonds that Argentina has outstanding on the local and international markets. Furthermore, Argentina is actually reducing its bond debt, by redeeming $1.5bn-worth of bonds this year.

Minorco lifts profits by 4% to $253.4m

By Roland Rudd

MINORCO, the Luxembourg-based investment arm of Anglo American Corporation of South Africa, reported a 4 per cent increase in pre-tax profits to $253.4m from $243.8m for the year to June 30.

Sales jumped to $1.67bn after the consolidation for a full year of Terra Industries and Hudson Bay Mining and Smelting, which were bought from Inspiration. Sales were $771m last year.

The group has also acquired industrial mineral companies in the UK and east Germany. Mr David Fisher, finance director, said the moves underlined the group's strategy of turning an investment company into a natural resources group.

Operating earnings increased to $63.8m from $57m as the acquired companies more than offset the reduced contributions from the group's gold interests.

The company has merged its 47 per cent interest in Adobe Resources Corporation with Santa Fe Energy Resources after unsuccessfully trying to sell the stake. Minorco's interest is now 9.75 per cent.

Earnings per share climbed to $1.22 compared with $1.14 and the dividend was increased by 6 per cent to 54 cents a share from 51 cents last time.

News Corp predicts rising profits

NEWS CORPORATION, Mr Rupert Murdoch's Australia-based international media group, is promising shareholders "rapidly increasing earnings" and is looking for new ventures, AP-DJ reports from Sydney.

In the company's annual report, Mr Murdoch says that steps taken to consolidate the group, coupled with "intensive management" of its businesses, will "continue to bring us rapidly increasing earnings". Last month News Corp posted an operating profit after tax of A$501.7m (US$368.2m).

Mr Murdoch said the company was continuing "to examine opportunities for owning and operating media and entertainment ventures around the world. Most recently we made a small investment in a Spanish television network and are looking at other similar ventures".

The company's risk-taking corporate culture remains unchanged, despite the financial crunch of the past two years. Mr Murdoch said News Corp was "institutionally committed to the proposition that fortune favours the brave".

ICI forms Turkish tie-up

By John Murray Brown in Ankara

IMPERIAL Chemical Industries has formed its first pharmaceuticals joint venture in Turkey.

The link with Abdi Ibrahim, a medium-sized concern, initially capitalised at £500,000, will market and distribute seven ICI products. The company will concentrate on antiseptic drugs which account for 60 per cent of the market, which in 1991 was worth $1bn. The operation is expected to create 400 jobs.

The move signals growing foreign interest in Turkey's pharmaceutical sector, despite lingering concern over lack of patent protection and other issues. Annual per capita drug consumption is just $15.

INTERNATIONAL COMPANIES AND FINANCE

Astra International falls 67% in first six months

By William Keeling in Jakarta

ASTRA INTERNATIONAL, Indonesia's second largest company and dominant player in the automotive industry, yesterday announced a 67 per cent fall in first-half net profits.

The company recorded net profits of Rp44bn ($21.6m) compared with Rp129.4bn a year earlier. The performance of Astra, which has a market capitalisation of $1.2bn, deteriorated in the second quarter, registering net profits of just Rp11.8bn.

The interim net figure included a Rp16.9bn gain on the sale of shares in its United Tractors subsidiary.

Brokers have been downgrading forecasts in recent months and said the figures were in line with expectations. The company's vehicle sales were down 32 per cent by volume, although it increased market share to 59 per cent against 55 per cent.

Some brokers express optimism for the second half and believe sales will be lifted by an easing of bank lending rates. One foreign broker is forecasting net profits for the year of about Rp120bn, down from Rp210bn in 1991.

The half-year results come amid increased speculation that the Soeryadjaya family, which owns 76 per cent of the company, is preparing to sell up to half its stake.

The family has acknowledged it needed to raise finance to restructure its privately-owned Summa Group. Bank Summa, the group's core company, has suffered from losses in its property portfolio. Brokers say the family has raised about $400m, using Astra shares as collateral, to inject into the Summa Group.

An extraordinary general meeting of Astra is to be held today to confirm the appointment of Mr Sumitro Djojohadikusumo as chairman, to replace Mr William Soeryadjaya, the company's founder. Astra officials said the move was designed to reassure investors that no formal link existed between the company and the Summa Group.

Brokers say the Soeryadjaya family may announce a buyer for part of its holding at the meeting. Speculation over Astra's future ownership has helped depress its shares which have underperformed the Jakarta stock exchange index by 32 per cent in the past year and by 10 per cent in the past month.

NZ property chief criticised

By Terry Hall

THE New Zealand Stock Exchange's market surveillance panel has criticised interests associated with Sir Robert Jones, the executive chairman of Robt. Jones Investments, the New Zealand property group, for reducing their exposure to the company "by a very substantial amount" without informing other shareholders.

In an extensive report issued yesterday, the panel condemned what it said was the failure of directors, and in particular Sir Robert and Mr David Moriarty, managing director, to inform the market of share transactions and arrangements, which should have been disclosed. The report follows a protracted investigation into the placement and sale of shares, and transactions involving the company and its employee unit trust between March and September 1990.

Robt. Jones Investments is one of the biggest property groups in Australia and New Zealand.

Sir Robert is expected to announce his resignation from the board of the company he founded 10 years ago at today's annual meeting.

The report lists a number of breaches in the exchange's listing requirements:

- funding through an employee unit trust of share sales by interests associated with Sir Robert Jones;
- sales of properties to those interests "on a non-arms length basis";
- the "material fact that the company's employee unit trust was substantially involved in certain significant share transactions that were reported to the market incorrectly".

Mr Kevin O'Connor, panel chairman, said some of the breaches may have been connected with efforts to ensure the group's survival.

Jardine Matheson unit leaps 156%

By Simon Davies in Hong Kong

JARDINE International Motor Holdings (JIMH), the motor trading arm of the Jardine Matheson group of Hong Kong, yesterday announced a 156 per cent leap in net earnings to US$29.7m for the six months to June, from US$11.6m a year earlier.

The results were up from a low base, with luxury car sales hit by the Gulf war in 1991. But profits were ahead of most expectations, because of the strength of sales of the new Mercedes-Benz S series car in Hong Kong and China.

JIMH said growth was strong in China. The strength of Asian sales was partially offset by its performance in Australia, the UK and US. Its new Lancaster dealerships in the UK were badly affected by the recession, while profit margins weakened further in Australia.

Mr Simon Keswick, chairman, said: "The strength of the demand for Mercedes-Benz cars in Hong Kong and China will enable the group to achieve excellent results for the full year." The company recommended an interim dividend of 1.06 US cents, compared with 0.72 cents last time.

Fujitsu warns of 91% drop in earnings for half year

By Steven Butler in Tokyo

FUJITSU, Japan's largest computer maker, yesterday said parent company pre-tax earnings would plunge 91 per cent to Y3bn ($24m) in the half year ending this month.

The decline is caused by the slowdown in the domestic economy and the weak sale of electronics equipment internationally. Fujitsu expects losses in most of its semiconductor operations.

The revised forecast confirms earlier reports that Fujitsu would suffer a steep fall in profits. Although Fujitsu yesterday said it was still preparing a formal forecast for consolidated earnings in the first half, it expected to post a net loss of about Y20bn.

For the full year Fujitsu cut in half its forecast for pre-tax consolidated profits to Y40bn. This compares with last year's pre-tax level of Y51.5bn. Net earnings are expected to reach Y10bn, compared to Y12.2bn last year. Consolidated sales are projected at Y3,650bn, an increase over last year's Y3,441.9bn. On a parent company basis, pre-tax profits for the full year are forecast at Y25bn, against Y40bn.

Japanese bank to help three institutions

BANK of Yokohama, a leading Japanese regional bank, has agreed to help three non-bank financial institutions affiliated with Nippon Credit Bank by reducing interest on loans which have been extended to them, Reuter reports from Tokyo.

The Bank of Yokohama has agreed to cut interest on its loans to the short-term prime rate, now at 4.75 per cent, from about 6 per cent interest per year.

Most other regional banks which have made loans to the non-banks, such as Chiba Bank and Hiroshima Bank, have agreed to the same rate cuts, the Bank of Yokohama said.

Fay, Richwhite's net profits in strong rise to NZ$14.3m

By Terry Hall in Wellington

FAY, Richwhite, the New Zealand investment bank, yesterday announced a strong rise in net profits to NZ$14.3m (US$7.85m) for the 12 months to June 30 – a sharp improvement on the NZ$10.03m earned in the previous 15 months.

The directors said the profits included a net contribution of NZ$2.2m from its 26 per cent holding in BNZ, the New Zealand bank it is selling to National Australia Bank. Fay, Richwhite also earned NZ$10.2m in equity accounted earnings from BNZ, down from NZ$20.1m in the previous 15 months. Fay, Richwhite's merchant banking operations contributed NZ$12.1m. The directors said that over the past 12 months this side had completed the sale of NZ$500m of mortgages purchased from the Housing Corporation.

Sales and other gross operating revenues were NZ$105.8m compared with NZ$121.94m, while taxable profits came to NZ$14.3m against NZ$9.83m. No tax was payable. Profits after extraordinary items were NZ$24.32m compared with losses of NZ$20.88m.

Shareholders' funds amounted to NZ$182.49m against NZ$173.37m last time. The directors are recommending a final dividend of 2 cents a share down from 10 cents. Net tangible assets per share emerged at 39 cents, against 37 cents.

- AP-DJ adds: Mr David Richwhite, joint chief executive, said: "We look forward to completing the sale of our BNZ shares to National Australia Bank, which will enable us to retire all investment debt of NZ$281m and direct our attention to producing an increased level of equity earnings from merchant banking operations."

NAB to write down value of stake in rival bank

By Bruce Jacques in Sydney

DIRECTORS of National Australia Bank (NAB), one of Australia's four top trading banks, yesterday announced a write-down of its holding in banking rival ANZ.

NAB plans to write down to market value its stake of just over 5 per cent in the results for the year to September 30.

NAB's 50.6m ANZ shares are stated in its books at A$5.38, (US$3.95) compared with yesterday's closing price of A$2.94 on Australian stock exchanges, down 3 cents on the day. At this level, NAB's policy would wipe more than A$123m from its net profits for the year.

The write-down follows similar action by Westpac in its recent report for the first half to March, which included a write-down to market value of its 8.3 per cent stake in ANZ.

There are no other significant stated cross-shareholdings between the leading Australian banks. NAB directors said yesterday no tax benefit would arise from the ANZ write-down. They said NAB had also revalued its property assets, resulting in a A$357m cut in value which would be adjusted against reserves with no impact on operating results.

NAB shares rose 1 cent to A$7.34 after the announcement yesterday, suggesting the write-downs had been factored into the bank's share price.

Foster's shares at lowest for year

SHARES in Foster's Brewing, the Melbourne-based international brewing group, fell a further 5 cents yesterday to a low for the year of A$1.33 (US$0.98), writes Bruce Jacques.

The fall is in reaction to this week's announcement of large write-downs leading to net losses of A$950.8m and a two-for-five share issue at A$1.10 a share, to raise about A$1bn. BHP's interest in Foster's is now up to almost 37 per cent.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17 76	17.71	17.71
0100	17.78	17.86	17.86
0130	17.71	17.71	17.71
0200	17.78	17.71	17.71
0230	17.76	17.71	17.71
0300	17.71	17.71	17.71
0330	17 71	17.71	17.71
0400	17 71	17.71	17.71
0430	17.71	17.71	17.71
0500	17.71	17.71	17.71
0530	17.69	17.71	17.71
0600	17.69	17.71	17.71
0630	17.70	17.86	17.86
0700	22.19	20.43	23.60
0730	23.10	24.64	27.98
0800	27.06	22.86	26.10
0830	27.47	25.58	28.87
0900	28.07	25.59	28.64
0930	28.08	28.03	31.34
1000	28.09	28.04	31.34
1030	28.07	28.04	31.29
1100	27.60	28.04	31.26
1130	27.50	28.05	31.26
1200	27.60	28.06	31.26
1230	27.48	28.04	31.25
1300	27.09	28.03	31.25
1330	27.07	27.79	31.02
1400	26 88	25 68	28.77
1430	24.32	24.64	27.82
1500	24.32	24.64	27.82
1530	23.34	24.64	27.82
1600	22.00	24.33	27.50
1630	23.34	24.33	27.50
1700	24 83	24 33	27.50
1730	24.83	24.33	27.51
1800	24 32	24.33	27.52
1830	23.34	23.63	26.82
1900	21.28	23.03	26.21
1930	22.00	23.03	26.21
2000	26.64	17.86	17 86
2030	26.64	21.73	24.88
2100	26.64	23.96	27.18
2130	23.34	26.88	30.15
2200	23.34	24.33	27.55
2230	23.10	23.03	26.22
2300	21.90	21.12	24.27
2330	21.84	20.76	23.90
2400	20.61	20.06	23.19

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.

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INTERNATIONAL CAPITAL MARKETS

UK and Italian markets lifted by ERM departure

By Antonia Sharpe and Richard Waters in London, Sara Webb in Stockholm and Martin Dickson in New York

THE Italian and UK government markets took heart from the departure of their respective currencies from the Exchange Rate Mechanism. The Irish and Spanish bond markets fell on fears that their currencies might be the next victims of devaluation, while Danish bonds showed more resilience.

GOVERNMENT BONDS

■ THE sterling yield-curve flattened sharply yesterday in the wake of Wednesday night's decision to suspend the currency's link to the ERM, indicating that the UK could be heading for its first positive yield curve for nearly a decade.

The mood at the shorter end of the market was set by the short sterling futures contract on Liffe, which traded late in the day at 91.30 – up from its close last night of 88.65. Its signal that interest rates were expected to fall to below 8¾ per cent from their current 10 per cent level by the end of the year was echoed in shorter-dated gilts, which rallied strongly. For example, the 10 per cent gilts due 1996 gained nearly three points on the day, to end with a yield of 9.21 per cent.

Longer-dated bonds fell only slightly, in spite of the potential inflationary implications of taking sterling out of the ERM for any prolonged period of time. The 9 per cent gilts due 2008 lost less than half a point, closing at a yield of 9.07 per cent.

The extent of the levelling was "very tame, relative to the fundamental forces," said Mr Stephen Lewis, an economist at London Bond Broking Company. He estimated that if sterling were to fall to DM2.55, it could add half a point to projected inflation, taking the yield on long gilts up to 9¾ per cent to 10 per cent.

■ ITALIAN government bonds were the best performers of the day, with gains of between ¼-1¼ points, as dealers greeted the government's plans for budget deficit cuts of more than L90 trillion in the coming fiscal year. There were also expectations of a cut in interest rates as pressure eased on the lira after its early fall.

The Liffe December future was trading at 93.12 late in the day, after Wednesday's close of 92.65, with 14,720 lots exchanged. The day's high was 93.45 and the low 91.20.

On the cash market, the May 2002 BTP ended at 91.93/2.05, up from 90.61/74.

■ GERMAN bonds ended a volatile day about 0.20 points lower after a volatile day. The market had opened higher on rumours that the Bundesbank would lower the Lombard rate by half a percentage point, but then fell back when the Bundesbank failed to deliver.

News in the early afternoon that the German finance ministry was raising the volume of July's 8.0 per cent 1992/2002 federal government bond by DM5bn to DM15bn did not help the market.

The price of the Bund eased to 103.23/29, just below Wednesday's close, from 103.53/59 in mid-morning. The Liffe December Bund future fell to 90.71 from Wednesday's close of 90.82 with 78,058 contracts traded, after a high of 91.08 and a low of 90.38.

■ THE Irish government bond market dropped in the morning on fears that the Irish punt might be the next victim of devaluation. The Bundesbank and the Irish central bank intervened to protect the punt which was fixed in Frankfurt at its intervention floor of DM2.619.

■ A weaker French franc, fears of higher interest rates and the approach of Sunday's referendum on the Maastricht treaty weighed on French government bonds. Among French Treasuries, the 8½ OATs of 2003 fell 0.70 to 99.04 to yield 8.63 per cent compared with 8.53 per cent. At the long end, the 8½ of 2023 dropped 1.14 to 98.68 to yield 8.62 per cent.

■ ACTIVITY in the Swedish government bond market ground to a halt yesterday as investors waited for calm to return to the international financial markets and for news of political agreement in Sweden on proposals to cut government spending.

The Riksbank, Sweden's central bank, kept its marginal lending rate at 500 per cent yesterday in order to crush speculation against the krona.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.2421	-	8.90	8.80	8.35
BELGIUM		8.750	06/02	100.7500	-0.200	8.63	8.89	8.96
CANADA *		8.500	04/02	105.8000	-0.400	7.68	7.29	7.27
DENMARK		9.000	11/00	97.8750	-0.575	9.37	9.61	9.58
FRANCE	BTAN	8.500	03/97	98.1061	-0.105	9.00	9.33	9.36
	OAT	8.500	11/02	98.9700	-0.540	8.64	8.81	8.96
GERMANY		8.000	07/02	103.3450	-0.200	7.51	7.76	7.95
ITALY		12.000	05/02	91.8900	+1.315	13.96†	14.21	13.61
JAPAN	No 119	4.800	06/99	99.7455	-0.153	4.85	4.73	4.73
	No 145	5.500	03/02	103.8240	+0.201	4.91	4.84	4.92
NETHERLANDS		8.250	06/02	102.2100	-0.180	7.91	8.23	8.31
SPAIN		10.300	06/02	88.1600	-0.650	12.44	12.65	12.10
UK GILTS		10.000	11/96	102-20	+2 ⅞	9.21	9.81	9.45
		9.750	08/02	103-24	+1 ⅛	9.16	9.29	9.22
		9.000	10/08	99-14	-28/32	9.07	8.94	8.98
US TREASURY *		6.375	08/02	99-27	+09/32	6.40	6.33	6.48
		7.250	08/22	99-00	+32/32	7.33	7.26	7.33
ECU (French Govt)		8.500	03/02	94.7000	-1.080	9.36	9.41	9.30

London closing. *New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

■ US treasury prices barely moved yesterday morning as players cautiously waited for developments in European markets to unfold. At mid-session, the Treasury's benchmark 30-year bond was ⅛ higher at 99⅛, yielding 7.322 per cent.

Short-term interest rates rose at the start of trading, but fell back later in the day.

Three-month treasury bills were quoted with a spread of 35 per cent to 25 per cent at the opening, falling to 29 per cent to 24 per cent by the close.

With events in Europe continuing to dominate US markets, there was little reaction to domestic economic news. Jobless claims for the week ended September 5 advanced 6,000 to 400,000.

Debt convergence theory comes under pressure

By Richard Waters

THE convergence theory, which has provided the intellectual backbone to most investors' trading strategies in the European bond markets in recent times, was looking distinctly shaky yesterday.

"It is largely, if not completely, blown out of the water," was the conclusion of one large UK fixed income investor.

Like others, he had expected pressures to build up in the ERM, diverting EC member states from their march towards monetary and economic union – though not with the speed shown by the sudden swing of sentiment in the foreign exchanges on Wednesday.

"We certainly didn't expect it to happen as quickly or as violently as it did," he said.

The virtual ejection of sterling and the Italian lira from the ERM, and the devaluation of the peseta, left investors yesterday casting around for the next theory on which to hang their investment plans. Whether to sell bonds and buy gilts, and which European currencies now offer the best profit potential, were just two of the questions over which investors were scratching their heads.

Some fundamental investment strategies are likely to be altered in the days and weeks ahead.

"We haven't convened the asset allocation committee yet," said Mr David Shaw, head of fixed income investment at Legal & General, the UK insurer. That will only happen after the French referendum this weekend, which investors hope will give a clearer indication of where the ERM goes from here.

L&G has been one of the standard-bearers of the move by some UK insurers away from equities and into gilts, prompted by a belief that the discipline of the ERM made the outperformance of equities a thing of the past.

Mr Shaw said yesterday: "That was based on the assumption that we were a fully paid-up member of the ERM. That is now subject to almost daily review. We haven't reached any conclusion here yet – we are waiting for an economic statement from the government."

While investors wait for the political fog in the UK to part and a clearer indication to emerge of the way forward for UK economic policy, the markets were busy yesterday making up the government's mind for it: short-dated gilt prices tumbled in anticipation of UK base rates falling smartly, while sterling remained well below its former floor in the ERM. Longer-dated gilts, though, reflected only a hint of the possible implications of a devaluation and return to the UK's old inflationary ways.

"People have factored-in continental European-type inflation for the UK of 3 per cent," one investor said. "Now, people will have to put it closer to 5 per cent. On that basis, gilts are not very good value."

Much depends on whether an attempt is made in the coming days to weld sterling and the lira back on to the ERM – and whether the peseta can stay tied.

If so, then some investors were arguing yesterday that the convergence process could restart – and could actually be stronger than before. If a lower parity for currencies such as sterling allowed interest rates to fall, then economic recovery would come faster. That would lead to tax revenues climbing, helping European states to get a firmer grip on their fiscal deficits. That, in turn, would make it easier for countries to hit the Maastricht convergence criteria, making monetary union more rather than less likely.

There were few believers in this theory yesterday, however.

"As and when the ERM finally blows itself apart, the market will come back to valuing markets on fundamentals," one investor said. And then convergence really would be a thing of the past.

Malaysia agrees futures market

By Kieran Cooke in Kuala Lumpur

MALAYSIA'S Ministry of Finance has given the go-ahead for the establishment of a Kuala Lumpur Options and Financial Futures Exchange (Kloffe).

A consortium of private firms will run the new exchange. Those involved are believed to have strong political connections. They are the New Straits Times newspaper group; Renong, an industrial conglomerate; and two securities firms, Rashid Hussain Bhd and Zalik Securities.

The consortium had been involved in a tussle with the Kuala Lumpur Stock Exchange (KLSE) and the Kuala Lumpur Commodity Exchange (KLCE) for operation of the new exchange. The KLSE and KLCE were each offered a 20 per cent equity participation in Kloffe by its future operators, but both bodies declined.

Swiss safe haven draws another issue

By Antonia Sharpe

THE safe haven attraction of the Swiss currency during the current turbulence in the European Monetary System prompted another borrower to tap the Euro-Swiss franc bond market yesterday.

Bankers said the Electricité de France SFr100m offering was aggressively priced for an issue with a 6⅝ per cent coupon at 102, to yield 6.413 per cent, but that this was not surprising since the French utility is a top-quality borrower. What was more unusual was the 15-year duration of the bond.

The issue was being quoted at about 2¼ points below its issue price, yielding 6.65 per cent in late afternoon trading, just inside the lead manager's fees. Some bankers also thought that the coupon was very low at 6⅝ per cent, even though coupons have fallen from the 7¼ per cent on Swiss Franc bond issues earlier in the week.

Lead managers UBS said switching by investors from the short end to the long end of the Euro-Swiss franc bond market made this the ideal time to launch a bond with a long maturity. The bank added that it was having no problems in placing the bond.

Elsewhere, joint lead manager JP Morgan Securities announced that the pricing of Kingdom of Spain's $1.5bn seven-year Eurobond, launched on Wednesday, had been deferred until next Tuesday. The market was not unduly surprised by the decision, following the failure to attract investor interest in the light of upheaval in European financial markets.

● The credit rating of Imperial Chemical Industries, the UK group, was cut by two notches by Moody's Investor Service yesterday in reaction to its planned demerger.

ICI's rating tumbled from Aa3 to A2, affecting around $3bn of debt outstanding. The decision reflected Moody's belief that the planned demerger of the group's biosciences business would proceed, leading to a significant shift in the group's risk profile at a difficult time for the basic chemical industry.

INTERNATIONAL BONDS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Bk of Tok.(Cur.)Hds NV(b)‡★★†	350	(b)	100	(b)	0.30/0.15	Bank of Tokyo Cap. Mkts
Commerzbank AG(c)‡†	50	(c)	(c)	2002	-	Kidder Peabody Int.
SWISS FRANCS						
Iwatani Int.(a)#★★	200	3⅞	100	1996	-	Credit Suisse
Electricite de France(d)†	100	6⅝	102	2007	-	UBS
PT Indorama Synthetics(e)§§★★	60	4½	100	1997	-	Swiss Bank Corp

★★Private placement. §Convertible. #With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Undated issue. Coupon pays 80bp above 6-month Libor for first 5 years, 130bp in years 6-10 and 180bp thereafter. Payable semi-annually. Callable at par on any coupon dates. c) Variable issue price. Coupon pays US$ 6-month Libid defined as 12.5bp less than Libor. Payable semi-annually. Non-callable. d) Callable after 12 years at 100.5% and after 13 years at 100.25%. e) Putable on 30/6/95 at 113.41, 30/6/96 at 114.75 and on 30/6/97 at 102.75.

JSDA to study new members

JAPAN'S Securities Dealers Association (JSDA) plans to establish a committee to study whether banks and financial institutions engaged in the securities business should join the JSDA, Reuter reports from Tokyo.

"We plan to establish a committee to cope with the possibility that financial institutions will want to join the association," said Mr Sakae Kudo, chairman. At the moment, only securities houses can join the JSDA.

Under the revised Securities and Exchange Act, financial institutions which engage in the securities business on their own account or sell Japanese government bonds over the counter can set up their own regulatory body or join the JSDA. The revised act is expected to take effect in April and the JSDA should work out conditions allowing new members into the association next year, officials said.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on September 17

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	108¼	108¾		4.49
ALBERTA PROVINCE 9 3/8 95	600	112	112½		5.10
AUSTRIA 8 1/2 00	400	111¼	111¾	-⅛	6.50
BANK OF TOKYO 8 3/8 96	100	108⅛	108⅝	-⅛	5.75
BELGIUM 9 5/8 98	250	116¼	116¾	-⅛	6.23
BFCE 7 3/4 97	150	107¾	108¼		5.72
BNP 8 5/8 94	300	107½	108		4.37
BRITISH GAS 8 3/8 97	350	110	110½	-⅛	6.54
CANADA 9 96	1000	111⅞	112¼		5.13
CCCE 9 1/4 95	300	110⅝	111		4.56
CIA NAVIERA PEREZ 9 96	100	99¼	100¼		9.42
COUNCIL EUROPE 8 96	100	108¼	108¾	+⅛	5.61
CREDIT FONCIER 9 1/2 99	300	116¼	116½		6.35
DENMARK 8 1/4 94	150	107¼	107⅝		4.29
DENMARK 9 1/4 95	1571	110½	110⅞	+⅛	4.70
ECSC 8 1/4 96	193	109½	110¼		5.64
EEC 8 1/4 96	100	109¼	109¾	+⅛	5.45
EIB 7 3/4 96	250	108¼	108¾	-⅛	5.33
EIB 9 1/4 97	1000	115¾	116	-⅛	5.67
ELEC DE FRANCE 9 98	200	113	113½		6.13
EURO CRED CARD TST 9 94	325	107¼	107¾	+⅛	5.28
EUROFIMA 9 1/4 96	100	112¼	113	+⅛	5.29
EXPORT DEV CORP 9 1/2 98	150	115¼	115¾	-⅛	6.26
FINLAND 7 7/8 97	200	107¼	108	+⅛	5.93
FINNISH EXPORT 9 3/8 95	200	111¼	111¾	-⅛	5.26
FORD CAPITAL 9 3/4 97	250	112⅝	113¼	-⅛	6.54
GEN ELEC CAPITAL 9 3/8 96	300	112¼	113		5.55
GMAC 9 1/8 96	200	109½	110		6.00
GUINNESS FINANCE 8 94	200	106¼	106½		4.40
IBM INTL FIN 7 3/4 94	200	105⅝	105⅞		4.15
IND BK JAPAN FIN 7 7/8 97	200	106¼	107¼	+⅛	6.13
INTER AMER DEV 7 5/8 96	200	107⅝	108¼	-⅛	5.44
ITALY 8 1/2 94	1500	108¼	108⅜	-⅛	4.25
JAPAN DEV BK 8 94	150	106¼	106½		4.12
KANSAI ELEC PWR 10 96	350	114	114½	-⅛	5.51
LTCB FIN 9 97	200	106⅞	107¼	+⅛	6.13
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
COPENHAGEN TEL 8 5/8 96 LFr	600	98¼	99¼		9.28
WORLD BANK 8 96 LFr	1000	96¼	97¼		9.07
ENERGIE BEHEER 8 3/4 98 Fl	500	101½	102		8.42
UNILEVER 9 00 Fl	500	104¼	104¾		8.25
ALBERTA PROVINCE 10 5/8 96 C$	500	109⅛	109½	-⅛	7.46
BELL CANADA 10 5/8 99 C$	150	111¼	111¾	-⅛	8.38
BRITISH COLUMBIA 10 96 C$	500	107⅝	108	-⅛	7.54
EIB 10 1/8 98 C$	130	109¾	110¼		7.96
ELEC DE FRANCE 9 3/4 99 C$	275	108½	109	-⅛	8.10
FORD CREDIT CANADA 10 94 C$	100	104½	105¼	-⅛	7.36
GEN ELEC CAPITAL 10 96 C$	300	107	107½		7.74
KFW INT FIN 10 01 C$	400	109	109½	-⅛	8.45
NIPPON TEL & TEL 10 1/4 99 C$	200	110¼	110⅝	-⅛	8.30
ONTARIO HYDRO 10 7/8 99 C$	500	112⅝	113	-⅛	8.27
OSTER KONTROLLBANK 10 1/4 99 C$	150	110½	111	-⅛	8.18
QUEBEC PROV 10 1/2 98 C$	200	110¾	111¼	-⅛	8.23
BELGIUM 9 1/8 96 Ecu	1250	98¼	98¾	-⅛	9.66
CREDIT LYONNAIS 9 96 Ecu	125	96¼	97¼	-⅛	10.29
DENMARK 7 5/8 96 Ecu	250	92¼	93¼	-⅛	10.32
EEC 7 5/8 94 Ecu	200	96	96½		10.70
EIB 10 97 Ecu	1125	101½	102	-⅛	9.50
FERRO DEL STAT 10 1/8 98 Ecu	500	99½	100	-⅛	10.19
ITALY 10 3/4 00 Ecu	1000	104	104¼	-1	9.95
UNITED KINGDOM 9 1/8 01 Ecu	2750	98¼	99	-⅛	9.35
AIDC 10 99 A$	100	102¼	103		9.49
BP AMERICA 12 1/4 96 A$	100	109¼	110	-⅛	8.94
COMM BK AUSTRALIA 13 3/4 99 A$	100	120	120¾	-⅛	9.69
EKSPORTFINANS 12 3/8 95 A$	75	111¼	111¾	+⅛	7.58
EUROFIMA 14 5/8 94 A$	75	110¼	110¾	-⅛	7.67
MCDONALDS CANADA 15 95 A$	100	114⅞	115½	-½	8.70
NAT AUSTRALIA BANK 14 3/4 94 A$	150	109¼	109¾		7.59
UNILEVER AUSTRALIA 12 98 A$	150	111⅞	112¼	-⅛	9.26
VOLKSWAGEN INTL 15 94 A$	100	110¼	110¾	-⅛	7.82
ABBEY NATL TREAS 13 3/8 95 £	100	106¼	106½	+1½	10.33
ALLIANCE & LEICS 11 3/8 97 £	100	102⅝	103¼	+⅞	10.59
[illegible]					

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	56	19	0
Other Fixed Interest	7	6	2
Commercial, Industrial	610	109	704
Financial & Property	466	21	313
Oil & Gas	45	3	37
Plantations	4	0	5
Mines	80	4	65
Others	81	4	29
Totals	1,349	166	1,155

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

LIFFE EQUITY OPTIONS

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Alld Lyons	500	67	77	87	3½	8	[illegible]
(*585)	550	42	42	53	8	25	[illegible]
	600	14	37	29	30	55	[illegible]
ASDA	25	6	7½	9	2	2½	[illegible]
(*29)	30	3	5	6	4	6	[illegible]
	35	1	2½	4½	9	8	[illegible]
Brit. Airways	260	25	32	40	5½	13	[illegible]
(*276)	280	12	23	30	13	22	[illegible]
	300	5	15	21	26	33	[illegible]
SmKl Beecham A	500	44	58	70	7½	16	[illegible]
(*531)	550	12	28	40	30	40	[illegible]
	600	14	12	20	30	55	[illegible]
Boots	420	39	51	63	5	13	[illegible]
(*449)	460	15	29	40	21	30	[illegible]
B.P.	200	18½	25	29	4	10	[illegible]
(*212)	220	7	15	19	14	19	[illegible]

[illegible]

TRADITIONAL OPTIONS

- First Dealings Sept. 14
- Last Dealings Sept. 21
- Last Declarations Dec. 10
- For settlement Dec. 21

3-month call rate indications are also shown on this page.

Calls in BTR Warrants '93/94, CRA, Nth. Broken Hill, Pittencrieff, Premier Cons. and Western Mining. Doubles in Emess and C.E. Heath.

TRADITIONAL OPTION 3-month call rates

■ INDUSTRIALS	p	Charter Cons.	40	Ladbroke	17	Sears	7	■ OILS	
Allied-Lyons	43	Comm Union	42	Legal & Gen	27	SmKl Bchm A	34	Aviva Pet	12
Amstrad	4	Courtaulds	33	Lex Service	18	TI	50	BP	18
Astec (BSR)	3	Eurotunnel	32	Lloyds Bank	31	TSB	11	Burmah Castrol	39
BAT Inds	54	FKI	6	Lonhro	9	Tesco	17	Conroy Pet	6
BOC	49	FNFC	6	Lucas Inds	10	Thorn EMI	51	Gaelic Res	½
BTR	32	Forte	17	Marks Spencer	22	T & N	11½	Premier Cons	2½
Barclays	24	GKN	31	Midland Bank	30	Unilever	70	Shell	33
Blue Circle	18	Gen Accident	38	NatWest Bank	22	Vickers	12	Tuskar Res	½
Boots	34	GEC	17	P & O Dfd	33	Wellcome	70	■ MINES	
Bowater	56	Glaxo	55	Racal Elect	6	■ PROPERTY		RTZ	39
Brit Aerospace	30	Grand Met	29	RHM	14	Brit Land	17		
British Steel	6	GRE	13	Rank Org	42	Land Sec.	32		
BT	25	Hanson	15	Ratners	2½	MEPC	24		
Cadburys	32	ICI	78	Reed Intl	41				

US buy helps Wassall to £6m

By Roland Rudd

WASSALL, the mini-conglomerate run by former Hanson executives, doubled pre-tax profits in the six months ended June 30 on the back of its recent acquisition of DAP, a US supplier of construction products and filling compounds.

Profits increased to £6.24m (£3.12m) on increased sales of £117m (£63.8m).

The consumer division, which includes DAP and Antler, the UK luggage manufacturer, increased operating profit to £3.44m (£340,000). DAP generated £2.8m of this.

The US business is undergoing a rationalisation programme which has meant the closure of a number of plants and a reduction in its product range.

When Wassall bought DAP last year half of its sales were generated by 18 products, while the other half was generated by 700 products.

Wassall has earmarked $20m (£11.2m) of capital expenditure over the next two years to replace old machinery, open a new warehouse and expand DAP's DIY sheds which is the fastest growing part of the US DIY market.

By the year end margins are expected to have risen by almost 3 percentage points to 7 per cent.

The closures businesses, which includes bottle top companies in the UK, Italy and South Africa, increased operating profits from £3.49m to £3.82m.

The industrial and commercial side arrested last year's fall in profits with a strong performance from Gilchrist pre-press services which offset a disappointing result from office furniture. Operating profits rose to £195,000 (£156,000).

Borrowings increased to £28m (£24m) representing gearing of 45 per cent. However, debt is expected to fall to £20m by the year end.

Earnings per share improved to 3.46p (3.13p adjusted) and the interim dividend is increased to 0.8p (0.67p adjusted).

● COMMENT

Wassall is one of the few companies content to be labelled a conglomerate. The C word may have become unfashionable in the nineties but Mr Christopher Miller, chairman, believes there are almost as many undervalued manufacturing companies for sale now as there were in the eighties. Wassall's doubling of profits on the back of its acquisition of DAP underlines his argument. Mr Miller would admit that there is an element of luck. About 70 per cent of sales are generated overseas, which is an added bonus during a sterling crisis. With forecast pre-tax profits of £17.5m, giving earnings per share of 9.9p, the shares – up 14p to close at 172p – are on a prospective multiple of 17.2. It may look expensive but for the moment its 35 per cent premium to the market is justified.

Halifax defies gloom with 4% increase

By David Barchard

HALIFAX, the largest UK building society, yesterday defied the gloom in the housing market by announcing a 4 per cent increase in its pre-tax profits to £318m for the half year to July 31.

Mr Jon Foulds, chairman, described the results as good figures in a bad market. "They confirm the underlying financial strength of the Halifax," he said.

However, Mr Foulds gave a warning about profits in the remainder of the year. "It is unrealistic to look for an improved second half year, and after yesterday's events we remain even more concerned about the continued depressed state of the housing market."

He called on the government to take measures to improve the housing market, otherwise any recovery would be deferred.

In spite of Mr Foulds's warning, Halifax's profits growth in the first half contrasted impressively with the 10 per cent fall in interim profits of Abbey National, the second largest UK mortgage lender.

Total assets of the society rose by 9 per cent on a year ago to £61bn. The bad debt charge for the period was up nearly 10 per cent to £135m.

Total income grew 6 per cent to £791m, and interest income was up 3 per cent at £611m.

Despite the lack of demand in the market, Halifax's mortgage book grew to £51.1bn, up from £46.5bn a year earlier and £49m at the end of January, and its share of the mortgage market has risen to 19 per cent, against 10 per cent a year ago.

The increase appears to reflect a partial withdrawal from the market by smaller lenders.

Halifax refuses to give any details of its problems with mortgage arrears and repossessions, beyond saying that evictions were down by 40 per cent in the half year because of its policy of showing greater forebearance to customers in serious difficulty.

Mr David Gilchrist, general manager, said very few customers indeed had been saved through the "rent-into-mortgage" schemes advocated by the government last December.

Savings deposits held by Halifax in the half year were £48.7bn (£45.3bn), but the bulk of the increase came from capitalised interest.

Halifax's 500-branch estate agency chain reduced its loss from £6.6m to £4.4m.

Davis Service advances

By Peter Pearse

DAVIS SERVICE Group, which has now all but severed its links with motor-related activities, lifted pre-tax profits from £7.06m to £8.03m in the six months to June 30.

In July 1991 it sold three of its four motor dealerships for £6.69m to a management buy-out and in early April this year disposed of its Godfrey Davis (Contract Hire) business to NWS Bank, for £5.75m.

Mr George Boyle, finance director, said that contract hire carried a large amount of "back-to-back" borrowings. As a result of the sale, borrowings were sharply cut from £77.8m to £8.3m in the period.

Interest payable for the contract hire side totalled £2.75m in the half, leaving group interest charges at £2.53m (£5.83m).

Turnover fell to £124.7m (£155m), but for continuing activities, it rose almost 6 per cent to £112.2m. Pre-tax profits of the continuing businesses grew to £8.22m (£6.65m).

Earnings grew to 6.39p (5.61p) per share and the interim dividend is maintained at 2.73p.

Proudfoot halved at £12m

By Andrew Jack

ALEXANDER PROUDFOOT, the US-based but UK-quoted management consultant, made a £6m provision against liabilities, interest and penalties on unpaid overseas taxes in its interim results unveiled yesterday.

The group, which suffered a sharp decline in its share price over the last few months following uncertainty over its trading outlook, declared pre-tax profits halved to £12m in the six months to June 30.

Turnover was up 7 per cent, but excluding the acquisition of Indevo Consulting of Sweden in September last year was down by 3 per cent.

Earnings per share were 11.25p (24.24p). The interim dividend is held at 6p and the company said the final dividend would also be maintained at 6p.

Directors disclosed that there had been reorganisation costs during the period of £1.3m principally related to the Crosby and Indevo businesses, and £1.5m on product development.

Temple Bar subject of contract buy out bid

By Norma Cohen, Investments Correspondent

BZW Investment Management, the fund management arm of Barclays de Zoete Wedd, yesterday took the unusual step of offering to buy out the management contract for an investment trust in which it is a shareholder because it is concerned about the existing managers.

BZWIM aid it had made "a substantial cash offer" to buy out the mangement contract of Temple Bar Investment Trust, which is currently managed by Guinness Mahon. "On behalf of its clients, BZWIM has been a long-term shareholder in Temple Bar Investment Trust and has become concerned with the recent changes in the management of the company."

Several weeks ago, BZWIM approached Sir Roland Smith, Temple Bar's chairman, and asked to acquire the management contract. BZWIM was rebuffed, although the full board will meet shortly to consider the proposal.

Under the proposal, BZWIM would pay a sum, believed to be equal to one year's management fees, to the board of Temple Bar in exchange for the contract. The trust, with roughly a 14 per cent exposure to property, would then be managed using BZWIM's traditional and quantitative management techniques.

Unilever sells salmon producer

By Paul Taylor

Unilever, the Anglo-Dutch food and consumer products group, said yesterday that it has found a US buyer for its Marine Harvest International subsidiary, Scotland's largest salmon producer accounting for nearly a quarter of total production.

MariFarms, an aquaculture company based in Woodbridge, New Jersey, will pay $39m (£22m) cash for Marine.

The sale will result in the loss of 160 jobs.

Reorganisation moves help put L&G £74m back in black

By John Authers

LEGAL & GENERAL, the life assurance group, reported a turnround to pre-tax profits of £74m in the first half to June 30, from a £56.1m previous loss.

The shares added 24p to 323p.

There was some disappointment that the group failed to increase its interim dividend. The unchanged figure of 6.2p was paid from earnings per share of 11.58p (11.8p loss).

Two exceptional factors buoyed the profits. The UK investment business was transferred to the life fund, producing an exceptional profit of £31.5m. Also, the restructuring of the US subsidiary's investment portfolio, meant that investment gains of £12.1m were realised, up from £2.4m.

The general insurance business cut its operating losses from £116m to £33m. Lower subsidence claims and the absence of severe weather conditions were the main factors.

Interest centred on the mortgage guarantee insurance business, which has depressed the group's performance and share price for the last two years.

The loss on this business was reduced to £26.4m (£88.9m). However, provisions against losses were raised to £185m (£158m).

Mr David Prosser, chief executive, urged further base rate cuts.

● COMMENT

It is easy to see why Legal & General wants base rates back down to 8 per cent in the hope of triggering a recovery in the housing market. Its shares are trading off a historic yield of about 8 per cent, suggesting that the market is treating it as a composite insurer, rather than a life company. Its exposure to mortgage indemnity insurance is the culprit. Analysts are happy that L&G's policy on reserves for losses on the business has been much more conservative than some of its rivals. Its loss rate has also been lower than others. But re-rating is unlikely until the housing market stages an umambiguous recovery. On the positive side, L&G has halted the slide in its market share for general life products – once the significant market for with-profits bonds is excluded – and streamlined its distribution channels. Nonetheless, forecasts for its full-year profits range widely, suggesting the stock should be treated cautiously until prospects for recovery are clearer.

Laporte falls 12% in difficult trading

By Paul Abrahams

LAPORTE, the UK's second largest independent chemical group, yesterday posted pre-tax profits for the six months to July 3 down 12 per cent from £50.3m to £44.5m.

Earnings per share fell 6 per cent from 20.1p to 18.8p. The interim dividend is increased from 6.8p to 7p.

The result was achieved on sales up from £302.6m to £321.3m, in spite of difficult trading conditions. The company said that in spite of the continued recession, it believed prospects for growth of the business remained good.

The smaller reduction in earnings per share was achieved by a lower tax rate and the reduced equity base following the restructuring of Interox, the 50-50 joint-venture with Solvay of Belgium. Solvay acquired Interox's bulk hydrogen peroxide and persalts businesses in May, and cancelled two thirds of its 25 per cent stake in Laporte.

Group turnover included £74m from Interox up to that date. Interox's profits up to May 21 were £9.6m, down from £16.4m for the first six months last year. Laporte has retained the organic peroxides and persulphates specialities business which it said had put in a similar performance to last year at £5.8m.

Three of Laporte's five divisions, organic speciality chemicals, construction chemicals, and hygiene and process chemicals, increased profits. The metals and electronic chemicals division maintained its operating profits. However, the absorbents division's results fell, mainly because of rationalisation of the continental businesses and weak performances in South America and south-east Asia.

The company continued its investment programme, with £29m being spent on capital plant in the absorbents division. About £41m was spent on acquisitions which included Rockwood, an American building pigments company acquired in April.

The company said capital expenditure and acquisitions were likely to be lower in the second half. Group debt at the period end was £70m for gearing of 30 per cent.

Dowding & Mills declines 23% to £6.5m

By Paul Taylor

Dowding & Mills, the electrical and mechanical repair group, blamed the recession for a 23 per cent fall in pre-tax profits to £6.53m for the year to June 30.

Mr Jim Cole, chief executive, said yesterday he was "disappointed" that this was the second year the recession had seriously affected trading and profitability. Turnover slipped by 6.2 per cent to £74.7m (£79.6m) and operating profits fell to £7.31m (£9.01m), but gross margins were maintained.

After allowing for tax and an extraordinary £633,000 charge related to the cost of the group's failed bid for Torday & Carlisle, attributable profits fell to £3.55m (£5.46m). Dowding and Mills retains an 8.7 per cent stake in Torday.

Earnings per share slipped to 3.12p (4.09p) but the proposed final dividend is increased to 1.58p (1.52p) for a total of 2.5p (2.4p).

Mr Peter Hollings, chairman, said business remained tough "and there is no sign yet of any improvement or when it will occur".

Polypipe advances to £15.4m

By Paul Taylor

POLYPIPE, the fast growing Doncaster-based manufacturer of plastic pipes and fittings, raised annual pre-tax profits by 11 per cent, from £13.9m to £15.4m.

Turnover in the 12 months to June 30 increased by 33 per cent to £108m (£81.2m), buoyed by a full-year contribution from activities bought during 1990-91. The three businesses acquired earlier this year contributed £10m.

Mr Kewin McDonald, chairman and managing director, said the disproportionate rise in turnover disguised "a strong performance by our core plastic pipe and fittings interests."

He added that the inclusion of the newly acquired businesses, including some acquired from receivers which historically operated on lower margins, helped explain the apparent decline in overall margins.

Operating profits increased to £15.4m (£13.7m) and included a £200,000 loss incurred by GCA Windows and Aquapipes, two businesses acquired in October last year which contributed £6m to turnover.

The core plastic pipes and fittings business increased its market share and posted operating profits of £11.5m (£11.2m), while other plastic products, including the Oasis Leisure garden furniture business acquired in early 1991, recorded operating profits of £3.95m (£2.51m).

Since the end of June, Aquapipes, which makes single and twin-wall drainage and ducting systems for civil engineering, construction and land reclamation projects, had achieved "acceptable margins."

GCA Windows, which makes PVCu double glazed window units for industrial and local authority applications, is expected to produce acceptable margins shortly.

The Fordam cistern business, which was acquired from Spring Ram in August last year, had been transferred from Wolverhampton to Doncaster and "successfully merged" with Polypipe's subsidiary, Derwent MacDee.

Interest charges of £54,000 in the 12 months compared to £205,000 in receipts previously. Despite increasing capital expenditure to £12.6m (£8.1m) and assuming £4m of debt through acquisitions, Polypipe had net cash of £800,000 at the year end.

Earnings per share were 6.69p (6.63p), on capital increased by the £13.6m share placing earlier this year to fund the acquisitions.

The proposed final dividend of 1.34p (1.275p) lifts the total for the year to 1.97p (1.875p).

● COMMENT

Polypipe has managed to shrug off the recession so far, and pick up some cheap acquisitions with good growth prospects on the way. One reason why it has been able to buck the trend is that only 12 per cent of its business comes from new buildings. Among its recent acquisitions the purchase of Aquapipes should help extend its business in the water industry where plastic is slowly replacing clay and concrete, particularly as new investment in equipment to produce large diameter twin-wall pipes comes on stream. The management is confident that it can improve efficiency further and plans another £12m in capital expenditure this year. Together with the restructuring of its recently acquired businesses this should help improve margins. The full year pre-tax profit forecast of £17m looks reasonable. On yesterday's close of 100p, the prospective multiple is about 13.5 and the stock still looks attractive.

NEWS DIGEST

Magnolia shares tumble 18p

MAGNOLIA Group, a maker of picture frame mouldings, saw its shares fall 18p to 56p yesterday after reporting first half pre-tax profits down from £273,000 to £52,000 and passing its interim dividend.

Mr Kurt Scharf, chairman, that after an encouraging first three months there was a severe downturn in the following quarter.

He added: "We believe that market conditions will not improve in the short term and we will therefore continue to reduce costs to ensure medium term profitability at lower levels of sales."

Turnover for the six months to June 30 fell 14 per cent to £9.47m (£11m). Earnings per share were 0.61p (3.05p). There was an interim dividend last time of 1.75p.

Ernest Green declines to £0.46m

In a year of rationalisation, Ernest Green and Partners Holdings experienced a sharp fall in pre-tax profits from £2.15m to £458,000 on sales down from £11.7m to £7.74m.

The USM-quoted structural and civil engineering consultancy took exceptional costs of £304,000 (£152,000) representing redundancy payments.

The dividend for the year is unchanged at 7p, including a maintained final of 4.25p. Earnings per share at 4.3p (18.1p) exclude an extraordinary profit of £133,000 on the sale of the company's freehold premises at Sydenham, south London.

Greater competition leaves MTL lower

Increased competition for scarce orders left interim pre-tax profit at MTL Instruments, the maker of electronic measuring devices, lower at £2.2m, compared with £2.35m.

Turnover in the six months to June 30 for this USM-traded company was £9.29m (£9.19m).

Mr Ian Hutcheon, chairman and chief executive, said the result was disappointing and reflected poor trading in the UK and US, where sales were down almost 20 per cent.

There was an extraordinary credit of £630,000 (£552,000) and earnings per share were 8p (8.5p). The interim dividend is raised to 1.6p (1.5p).

Halved interest charge boosts Eadie

A halving of the interest charge enabled Eadie Holdings, the Glasgow-based engineering company, to report a pre-tax profit of £85,000 in the first half of 1992, against losses of £354,000, which included an exceptional charge of £133,000.

Turnover was lower at £9.22m (£9.64m) and trading profits improved 16 per cent to £290,000 (£250,000). After taking account of acquisitions and disposals the increase was 38 per cent, the company said.

Earnings per share were 0.19p (losses 0.95p). There is no interim dividend but the company still intends paying a final of 0.5p.

Spandex displays modest improvement

Spandex, the USM-traded supplier of sign-making equipment, reported a modest improvement in profits for the six months to June 30.

On turnover of £28.3m (£26.8m), the pre-tax balance emerged at £2.24m (£2.16m).

Mr Charles Dobson, chairman, said that sales of sign-making computers were static but sales of materials had moved ahead strongly.

The interim dividend is held at 1.9p, payable from earnings of 11.2p (11.9p) per share.

Gabicci hit by poor men's wear market

Gabicci, the USM-quoted casual clothing group, reported a sharp contraction in annual profits, reflecting falling consumer demand for its core men's wear brand.

On turnover down 18 per cent to £20m, pre-tax profits for the year to June 19 fell 63 per cent to £524,000 (£1.43m) after exceptional costs of £250,000.

However, Mr Jack Sofier, chairman, said indications for the spring were "looking positive" and exports, particularly to the US, were "quite buoyant."

Earnings per share dropped from 8.8p to 2.9p. The final dividend is cut to 0.6p (2.85p) reducing the total to 2p (4.25p).

Losses and the cost of closing the Gransden Casualwear offshoot were taken as a £314,000 extraordinary charge.

Margins come under pressure at Campari

Strong pressure on margins led Campari International, the sporting leisurewear group, to report a one third fall in profits in its seasonally unfavourable first half.

Turnover for the six months to June 30 dipped to £18.7m (£19.5m) reflecting the dull men's wear market in the UK. Interest received fell from £338,000 to £263,000, leaving profits before tax at £1.03m (£1.53m).

However, Mr Christopher Cheng, chairman, said the group's autumn ranges had been "well-received". Sales so far in the second half and forward orders were "comfortably ahead" of last year.

The interim dividend is lifted to 3.25p (3p), payable from earnings of 7.27p (11.15p) per share.

Halls Homes & Gardens taken over by receivers

By Andrew Jack

HALLS Homes & Gardens, the USM-quoted manufacturer of conservatories, garden buildings and home improvement products, yesterday had its shares suspended and passed into the hands of receivers.

The action jeopardises a £1.5m debt-into-equity swap agreed by National Westminster, its bankers, in February last year, which reduced borrowings to about £6.3m.

NatWest subscribed in full to a 1.5m issue of 7 per cent preference shares of £1 par redeemable in 1993-95. The company launched a £3.2m rights issue at the same time without which it said it would "almost certainly be unable to continue trading".

Mr Tony Houghton and Mr John Richards, partners in accountants Touche Ross, were appointed receivers.

Mr Houghton said the company had suffered from the effects of the recession, which reduced demand for its products, cut margins and put pressure on liquidity.

But he added a note of optimism for the employees and creditors. He said that receivership allowed him to "run the business as a going concern with a view to selling it on as such".

"We will be looking to do so once we have had time to fully investigate," he added.

Mr Neil Curtin, the managing director who was appointed last November, was last night unavailable for comment.

Halls Homes & Gardens was established in 1984 and came to the USM in 1986. It currently employs 175 people, primarily at two sites in Kent. It also has a long lease on a paint factory in the region.

In the latest full accounts for the 12 months to December 31 last year, the company showed a loss of £7.2m on a turnover of £20.8m. It had net current liabilities of £3.5m.

In the first half of this year it returned into the black with pre-tax profits of £529,000 on turnover of £12.7m. It declared no dividend.

Christies deems dividend cut wise 'in uncharted territory'

By Maggie Urry

CHRISTIES International, the auction house, cut its interim dividend from 2.3p to 0.5p yesterday.

The move followed the reduction in the 1991 dividend from 8.3p to 3.3p through a 5p cut in the final payment.

Christies had said in March that the lower level of dividends should be seen as a base for the future.

Yesterday Mr Christopher Davidge, managing director, said that the group had been expecting an upturn towards the end of the current year, but that had not happened.

Now, he said, "we are living in uncharted territory." The interim payment was prudent and a judgment would be made at the year end.

If the board had declared an uncovered dividend, he said, it would have implied that it knew what the future held.

Earnings per share fell from 0.98p to 0.7p. Christies' shares fell 3p to 105p.

The group's interim pre-tax profits fell from £3.04m to £2.11m due to lower interest receivable of £1.4m (£2.4m).

Operating profits rose from £608,000 to £718,000 on increased turnover of £51.4m (£50.6m).

Lord Carrington, chairman, said: "We recognise that we have much to do to provide our shareholders with an acceptable return." He is stepping down next May in favour of Sir Anthony Tennant, although he will remain a non-executive director.

He said "conditions in the art market were little changed in the six months ended June 30." The balance sheet still had net cash of £16m at June 30, which gave the group flexibility and security.

Mr Davidge said auction sales of £290m (£286m) had been at about that level for three halves now.

Private treaty sales rose from £3m to £17m, however, including the sale to the National Gallery for £10m of Hans Holbein's portrait of A Lady with a Squirrel and a Starling.

During the half year Christies also handled the sale of a Canaletto for £10.1m.

Mr Davidge said that although there was a good mixture of works for sale in the second half, there was "nothing headline fetching."

Christies had 23 items to sell, which would raise more than $1m (£500,000). In addition a $50m Impressionist sale and a $30m contemporary art sale were coming up.

Logica almost doubled at £7m

By Alan Cane

LOGICA, the computing services company, saw pre-tax profits almost double last year as its troubled North American subsidiary returned to the black. The shares rose 10p to close at 140p.

Profits before tax were £7.06m. Last time's £3.7m was struck after restructuring costs of £6.4m. Sales were slightly higher at £200.4m (£197.8).

Earnings per share were 7p, against losses of 1.6p after a higher tax charge of £4.64m resulting from overseas losses. The proposed final dividend is 2.5p making a total of 3.65p (3.5p) for the year.

Year-end cash balances stood at £13.7m, against £15m at the beginning of the year.

The results have been depressed for the past two years by a combination of the recession in the UK and steep losses in North America.

This year sales in the UK grew from £114m to £122m with profits slipping from £8.8m to £7.1m. North American revenues slipped from £26.3m to £23.8m, but the subsidiary ended up £550,000 in the black, compared with a loss of £2.7m.

The main reversal was in mainland Europe where profits of £2m last year became a £1.7m loss as the German economy deteriorated.

Mr David Mann, Logica managing director, said he did not expect to see much of a contribution to profits from mainland Europe or elsewhere outside the UK in the coming year. Priority in North America was being given to investment in marketing and sales. Exchange rate movements had contributed nothing to the results.

● COMMENT

Logica has put up a strong performance in its key market, the UK, in atrocious conditions. The computing services sector is suffering unrelieved gloom at present so analysts are taking a cautious view of Logica's improvement. Nevertheless, the management's decision to cut hard and deep last year has been vindicated and the North American black hole has been plugged. Pre-tax profits of £10m next year, giving a prospective p/e of 13.8, would not seem ambitious.

Spurs back in black with £2.7m

By Jane Fuller

TOTTENHAM HOTSPUR, the football club controlled by Mr Alan Sugar and Mr Terry Venables, turned round from a £1.78m pre-tax loss to a profit of £2.66m in the year to May 31.

Mr Sugar, chairman, whose other company Amstrad sells satellite dishes, commented on the opportunities offered to Tottenham from the deal between the Premier League and BSkyB.

Mr Colin Sandy, finance director, said the club could earn anything from £1m to over £2m, compared with hundreds of thousands from the previous deal for league games.

Borrowings were reduced from nearly £11m to £4.3m, with the help of a £7m rights issue, and net assets improved to £22m (£12.1m). The interest bill declined to £1.18m (£2.29m).

Turnover rose to £19.3m (£18.2m) and operating profit amounted to £3.84m (£512,000). Earnings per share emerged at 20.2p (losses of 17.3p).

No dividend could be paid because of a lack of distributable reserves on May 31. A transfer from the share premium account has since righted this and Mr Sugar said there would be a special interim dividend.

The figures did not include the £5.4m received from Lazio of Italy for Paul Gascoigne. Mr Sandy said that since the year-end a total of £8.15m had come in from player sales while £6.25m had been spent on seven players.

APV declines 17% to £12m

By Peter Pearse

APV, the food manufacturing equipment maker, blamed the lack of even a modest economic recovery for a 17 per cent fall in profits for the first half of 1992.

The return on sales margin slipped from 5.1 to 3.8 per cent.

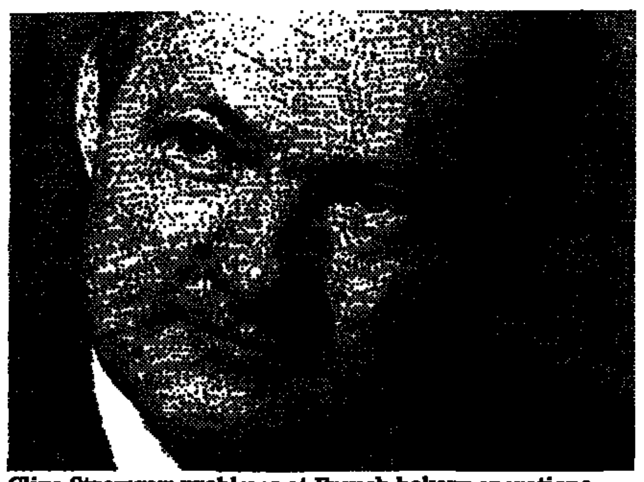
The pre-tax decline to £12m (£14.5m) was struck on turnover up 8 per cent at £437m (£402.9m).

A fall in other operating income to £1.7m (£4.3m) contributed to the near-20 per cent slide to £16.5m (£20.5m) in operating profits.

APV said that demand had fallen in its dry food side, with sales down 10 per cent at £127.8m and profits tumbling to £1.4m (£5.6m).

Mr Clive Strowger, who became chief executive in July after the early retirement of Mr Fred Smith at the end of 1991, said that the French bakery operations had suffered particularly from a lack of orders and a downturn in profit.

Also the "adverse" economic climate led to "traditional customers deferring capital investment programmes".



Clive Strowger: problems at French bakery operations

With competition growing, net margins shrank from 3.9 to 1.1 per cent in the division.

However, Sir Peter Cazalet, chairman, asserted: "APV will undertake no meaningful work at less than cost."

By contrast, the liquid food division, fuelled by growth in continental Europe and Asia, lifted profits from £10.5m to £11.3m on turnover up almost 20 per cent at £247.3m (£206.9m). Margins slipped from 5.1 to 4.6 per cent – the company said there was a "shortfall in high margin orders".

In the "hotch-potch" group of companies, of which Vent-Axia, the UK ventilation fan maker, is "the largest and the best", according to Mr Strowger, profits eased to £3.8m (£4.4m) on turnover ahead at £61.9m (£54m).

Earnings per share emerged at 2.8p (3.3p) net and 3.5p (3.7p) on a nil distribution basis.

The interim dividend is unchanged at 2p.

● COMMENT

Leaderless for the first half, APV now has Mr Strowger at the helm, and it needs him to sort out the margins problem. Mr Smith tended to acquire companies and then let them get on with running themselves. It is to be hoped that the new chief executive will identify the over-complexity of the group as a fundamental problem – it has 40 companies with 130 operations. Stronger central controls are needed to take strategic planning, product development and marketing by the scruff of the neck and Mr Strowger has his work cut out. The dull results will remain so, though the "disappointing" order intake since June is a worry for a company with high operational margins. Forecast full-year pre-tax profits of about £30m give a multiple between 12 and 13. There is no great pressure on the dividend, though things will drift until Mr Strowger has made his presence felt.

John Lewis down 15% as recession continues

By John Thornhill

SALES AT the John Lewis Partnership's department store chain have been "encouraging" since the beginning of August adding to the accumulating evidence that retail sales have strengthened over the past few weeks.

However, the employee-owned retail group, which runs 22 department stores and 99 Waitrose supermarkets, yesterday reported a 15 per cent fall to £20.2m in interim pre-tax profits, reflecting the effects of recession and Sunday trading by rivals and increased interest costs.

Announcing his last set of results before retiring as chairman, Mr Peter Lewis took the opportunity to condemn the government's continued failure to intervene to prevent unlawful Sunday trading.

"It must be the first sales tax ever exacted for keeping the law and handed over for the benefit of the delinquents," he said.

In the half year to July 25, JLP's sales were 2 per cent ahead at £1.09bn. However, department store sales declined a shade to £501.2m – "a result the like of which I do not think I can recall," said Mr Lewis.

Waitrose came under pressure from competitor openings but pushed sales up 4 per cent to £573.9m. The company said there had been some sharp falls in some food prices which had lowered cash takings.

The wholesaling and manufacturing businesses recorded a more encouraging performance with a 13 per cent increase in sales to £19.7m.

Trading profits fell 5 per cent to £38m, but were further eroded by a higher interest charge of £12.1m (£10.8m). Costs were reasonably controlled but continued to rise *faster than sales.*

Mr Lewis said he did not think it was likely that there would be a general economic boost before the end of the year, but thought there was room for profits improvement through the individual efforts of JLP's employees.

Electronic market problems behind setback at Canning

By Paul Cheeseright, Midlands Correspondent

PROFITS AT W Canning, the Birmingham-based speciality chemicals manufacturer and electronics distributor, declined slightly during the first half of 1992 as it faced continuing problems selling components in continental Europe.

The pre-tax line amounted to £3.01m (£3.05m). Total sales of £59.1m were down on last time's first half figure of £61.7m but higher than the £55.4m recorded in the 1991 second half.

The sales pattern reflected the group's changing shape. Its drive into niche chemical markets produced growth while commodity price reductions helped to protect margins. However, sales declined in the electronic component markets of Germany, France, Italy and Spain and provoked a decision to change the focus of the business from generalised to specialised distribution.

Chemicals' operating profits were £3.9m against £700,000 for electronics. In the 1990 second half the two divisions made a roughly equal contribution to operating profits.

Electronic market problems led Canning to close its Semitronic subsidiary in Spain, a withdrawal from the market which takes £2m off shareholders' funds. This has been partially offset by the sale for £1.35m of a 90 per cent shareholding in LJ Specialities, a chemical company. Gearing by the year end should be down from 58 per cent to 50 per cent.

Although Mr David Probert, chairman, expects continued growth on the chemical side and a return to prosperity in electronics by the end of 1993, he noted that "there is considerable uncertainty in many of the group's markets with no discernible sign of a general improvement in demand."

This uncertainty has been compounded by the events surrounding the parity of sterling. "Forecasting is more difficult than I have ever known it," he said.

Nevertheless, the group had enough confidence to maintain the interim dividend at 2.94p, based on earnings per share of 5.9p (6.2p).

Charles Baynes falls to £1.88m

By Peter Pearse

CHARLES BAYNES, the specialist engineering and packaging distribution company, suffered the expected downturn in profitability in the first half of 1992, reporting a fall from £3.02m to £1.88m pre-tax.

However, the directors said they had enough confidence in the longer term outlook and the group's cash position to lift the interim dividend by 5 per cent to 0.525p (0.5p). Earnings per share declined to 1.05p (1.8p).

The cash position was further enhanced to £12m after the period-end by the sale of the building components division to Williams Holdings, the industrial conglomerate, for £8.6m cash.

Turnover in this division, affected by the "dire straits" of the construction sector, had fallen 17 per cent in the half, though there was a small profit, the company said.

Group turnover improved from £34.1m to £37.2m but the company said a direct comparison was not meaningful. It pointed to the acquisitions of Fist Fast and Truflo for £10.6m in April 1991, the closing of Stoneguard in 1991 and the acquisition of Frank Ford, the aircraft components business for £1.1m in January. The company said that on a comparable basis turnover fell 10 per cent from 1991 levels.

Aerospace, the largest part of the group, saw sales fall 26 per cent due to difficulties from rescheduling orders, while sales of technical products fell 17 per cent, leavened only by the Belgian valve business. Packaging was the bright spot with a 9 per cent increase, though demand was flat.

Oliver Group cuts half-year loss to £4.87m

The Oliver Group, footwear retailer, reduced its pre-tax loss from £5.2m to £4.87m in the half year to June 30.

Overall turnover rose marginally to £37.5m (£36.8m), but margins had been hit by rising occupancy and utility costs, and wide-spread retail price discounting, Mr Ian Oliver, chairman, said.

The sale of the framing division had been followed by the disposal of a number of uneconomic footwear branches and further disposals were planned, he said.

Losses per share increased to 19.28p (18.08p) and there is *no interim dividend.*

Mr Oliver said he was stepping down from the board with immediate effect for "someone unfettered by recent history". Mr Denis Cassidy, chairman of Boddington Group and Ferguson International, will succeed him.

Bemrose advances 15%

By Roland Rudd

A STRONG performance from its US operations helped Bemrose Corporation, the printing group, report a 15 per cent increase in pre-tax profits, from £1.61m to £1.85m, for the half year to June 27.

Sales rose to £22.8m (£21.5m). The group's core business of security printing in the UK continued to perform strongly on the back of term contracts.

Three of the group's main cheque contracts have been renewed for three to five years, although it expects to lose orders as the banks take more work in house.

Of its US businesses, Renaissance Publishing consolidated production from three to two factories and installed a new Harris Web press at a cost of almost $3m (£1.68m).

Bemrose Yattendon, the 50 per cent-owned printer of speciality advertising, raised operating profits by 40 per cent.

Earnings per share rose to 7.14p (6.49p). The interim dividend is unchanged at 4.3p.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Acsis, Breedon, Bristol & West Building Society, Business Technology, Fired Earth Tiles, Fisher (James), Hong Kong Land, Hornby, Inoco, Liberty, Macallan-Glenlivet, Olives Property, P-E International.

Final- Whinney Mackay-Lewis.

FUTURE DATES

Interims-	
Bilston & Battersea	Oct. 8
Caverdale	Sep. 24
Copymore	Sep. 23
Greenacre	Sep. 29
Hambros	Nov. 11
Hay (Norman)	Sep. 24
Holt (Joseph)	Sep. 28
Ipeco	Oct. 7
Kinta Kellas	Sep. 24
Pict Petroleum	Oct. 1
Richards Group	Sep. 28
Watts Blake Bearne	Sep. 28
Finals-	
BM Group	Sep. 30
BBA&EA	Sep. 29
Norex	Sep. 30
Wolverhampton & Dudley	Dec. 4

Frank Usher makes sharp recovery to £1m

The effects of recession failed to prevent Frank Usher Holdings, the USM-traded women's clothing group, from achieving a sharp recovery in full-year profits.

Despite a reduction of gross margins in the second half, pre-tax profits for the 12 months to May 31 jumped some 38 per cent, from a depressed £775,000 to £1.07m.

Exports accounted for 44 per cent of turnover marginally ahead at £15.6m. There were record orders for the autumn/winter collections.

Mr Christopher Norland, chairman, said that bad debts *increased reflecting late deliv*eries from fabric and sub-contract manufacturing suppliers and slower payments by customers. It was not a cause for concern, he added.

The proposed final dividend is 3p for a total of 5p (4p), payable on earnings of 10.2p (7.2p).

Store's slow start hits Bentalls

A slow start to the newly acquired store at the Lakeside shopping centre in Thurrock, Essex, accounted for just under half of the £1.05m pre-tax losses reported by Bentalls, the department store operator, for the half year to August 1.

The deficit compared with a *£207,000 profit last time.*

Mr Edward Bentall, chairman, said that with consumers still reluctant to spend, directors had been reviewing operations to identify how further cost savings could be made. The head office was to be relocated, while the situation at Lakeside was being assessed.

He said trading in August had shown a considerable improvement over last year, while further sales gains were expected when the Bentall Centre opened in November.

Agreement had been reached to sell the Bentalls charge card business to GE Capital. The move would reduce borrowings by more than £6m.

Turnover edged ahead by £1m to £31.5m. Losses per share were 1.63p (0.32p earnings), but the interim dividend is maintained at 0.6p.

Building products side mars Folkes

A deterioration in the performance of its engineering and building products divisions resulted in a 24 per cent decline at Folkes Group in the first half of 1992.

Pre-tax profits fell from £850,000 to £650,000 and sales contracted to £20.4m (£23.4m). Interest paid rose to £73,000 (£3,000).

Directors said that the property division maintained profits at the same level as last year.

The interim dividend is maintained at 0.575p on earnings per share of 1.25p (1.57p).

COMPANY NEWS: UK

Simon finds 'green' profits elusive in a recession

Angus Foster reports on the engineering group's decision last month to axe its environmental arm

FOUR YEARS after first touting itself as an environmental stock, a label which lifted its shares to a 40 per cent premium to its sector at one stage, Simon Engineering has decided the grass perhaps is greener elsewhere.

Last month the company announced it was putting its main environmental businesses up for sale. These include Simon's waste water treatment business, which makes sewage and industrial effluent treatment equipment, with annual sales of £65m, and its environmental consultancy business, with sales of £35m.

Several international groups, believed to include SAUR of France and Waste Management of the US, have shown interest. Simon hopes Barings, its advisers, can finalise the disposal before preliminary results are announced in March.

The money raised, perhaps as much as £50m, will be invested in its three remaining core businesses of access equipment, industrial services and process engineering.

The announcement, which accompanied news that pre-tax profits fell from £10.4m to £6.05m in the six months to June 30, led to a further fall in Simon's shares. They stood last night at 138p, only a few pence above a 12-year low set on Wednesday, and down from a peak of 410p in July 1990. The City felt it had been misled and that Simon's decision to go "ex-green" suggested it was unsure of its own direction.

One analyst, who did not want to be named, said Simon had become a "corporate magpie".

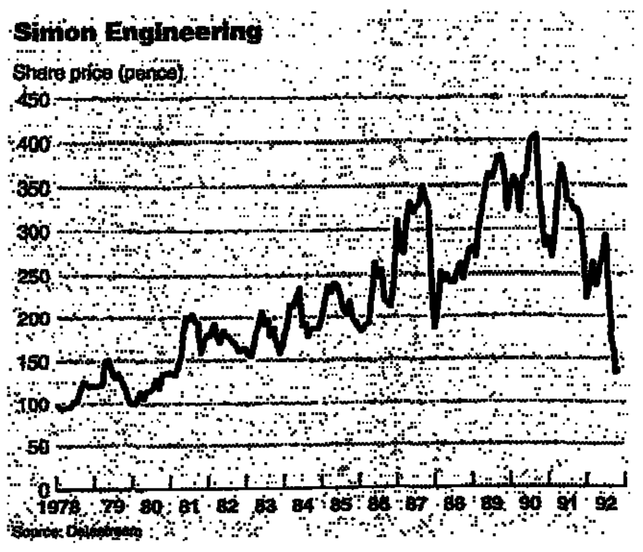
"They seem to pick things up, get bored with them, then fly on to something else. It's a valid question to ask if they really know what they are doing," he said.

Institutional shareholders, who include Confederation Life, the Prudential and BAT, were more understanding and said the City was partly to blame. "The City helped make this into a green stock and pushed it to ludicrous levels. It is partly their fault the company is not what they thought it was," one large shareholder said.

Simon's own view of the disposal lies in its recent history. Under the management since 1988 of Mr Roy Roberts, former chairman of Dowty, and Mr Brian Kemp, chief executive since 1989, Simon has been restructured from a sleepy industrial holding company.

Business areas were cut from 16 to four and exports became a priority. In 1990 the company raised £46m through a rights issue. The money was used on acquisitions and expansion of the four core businesses.

Simon Access, which makes powered access equipment such as truck-mounted platforms, made acquisitions in the US and Europe. Industrial services was expanded with last year's takeover of Robertson, a geological consultant. About £25m was spent developing the environmental division, through smaller takeovers such as Hydro-Search.



Mr Kemp said the four-pronged strategy had been scuppered by recession. "We said at the rights issue we could afford to maintain those four on the back of our increasing earnings. But since then our earnings have halved and the whole economic background is a good deal more pessimistic," he said.

The axe fell on the environmental arm because customer spending and new environmental legislation did not come as quickly as Simon expected. Mr Kemp said UK water companies had invested in large scale infrastructure projects, but spending on sewage treatment equipment was 20 per cent below expectations.

"We have seen in the last 18 months that greenness is not always associated with profitability and results have been poor," he said.

There is sympathy for this view among analysts, who suspect Simon also realised the environmental market would only become more competitive as larger foreign companies moved in, forcing margins down.

Mr Kemp agrees Simon was neither big enough nor a niche business. "We would have had to spend a lot of money getting there. But you cannot, in this climate, proceed on all four fronts at the same time. There are questions of management and financial resources," he said.

The City will probably come round to Simon's reasoning. But it will take longer for the company's shares to be rehabilitated.

Stripped of its green tinge, Simon has lost the unifying rationale behind its other divisions. For example, industrial services and process engineering are stand alone businesses yet have an environmental angle which binds them together. Once the binding is removed, Simon is in danger of again being seen as an eclectic industrial holding company.

The disposal also raises the question of what else may eventually be sold. Mr Kemp says no further disposals are pending but no division is "sacred".

"If you look five years ahead the group's focus will reduce even more. We have to get bigger in fewer businesses to compete internationally," he said.

Simon's second problem, which is more serious, is its financial position. Recession in the construction and paper industries, which hit Simon's access and process engineering divisions respectively, has meant group earnings per share fell from 34.5p in 1989 to 12.5p last year. Borrowings, mainly to fund acquisitions, have risen to £51m and interest cover has fallen from 17 times to 4.1 times. Last year Simon had to dig into reserves to pay an uncovered dividend.

Its shares are yielding more than 12 per cent, implying the market now expects a dividend cut. According to Mr Kemp, this year's dividend could still be covered if some of the process engineering division's more than £1bn of outstanding quotations are translated into firm orders, and if a 20 per cent year on year order improvement for access equipment is sustained.

Selling the environmental division would also give Simon the option of repaying nearly all borrowings, and bringing down gearing, now at 40 per cent.

"If we dispose of the division for about £50m all our financial ratios would improve, including our ability to maintain the dividend," said Mr Kemp.

Brian Kemp, chief executive, on a Simon-equipped fire truck with Roy Roberts, chairman, on the ground

Move into retail behind UniChem's 55% rise

By Jane Fuller

THE ESTABLISHMENT of a chain of chemists' shops helped UniChem, traditionally a pharmaceuticals wholesaler, to increase pre-tax profits by 55 per cent in the first half of the year.

The group made £15m (£9.68m) before tax on sales of £500.4m (£452.2m).

Mr Jeff Harris, who moved up from finance director to chief executive earlier this year, said that sales growth would have been nearly 20 per cent without a change in the arrangement for selling Glaxo's drugs. UniChem now receives an agent's fee rather than owning the drugs being traded.

The retail division, which hardly existed in the first half of last year, contributed £33m to turnover and about £2m to profit.

The main building block was the £27m acquisition of the 92-shop E Moss business in December. By the end of June the group had 132 shops and a further 34 had been added since, through the £14.5m purchase of Scott and another Scottish buy this week.

The Moss acquisition was accompanied by a £35.1m 1-for-4 rights issue. As a result UniChem's earnings per share rose less quickly – by 20 per cent to 7.2p fully diluted (6.5p to 7.6p undiluted).

The group is still dominated by wholesaling where operating profits rose by 34 per cent to £13m. The margin improved from 2.1 to 2.4 per cent.

While gearing was zero at the half-way stage, it would be between 15 and 20 per cent by the end of the year, with the Scott acquisition falling in the second half.

The group sold its nappy manufacturing business incurring an extraordinary loss of £2.45m (£1.03m for the abandoned bid for Macarthy).

The interim dividend goes up from 1.65p to 1.9p.

● COMMENT

These results were ahead of expectations and the group's share price gained 5p to close at 210p, even though it will not benefit from the lower pound and has limited recovery potential. Not that UniChem's virtues can be ignored just yet. The UK drugs market seems to be growing at about 10 per cent a year, fuelled by an older population and the increasing sophistication of treatments. And UniChem can continue to improve margins, through automation and the growing contribution of higher-margin activities. One of these is the over-the-counter lines, cosmetics for instance, which will be helped by more healthy consumer spending. A full-year profit of £30m to £31m, compared with £21.4m, gives a prospective multiple of about 14, in line with the market. As the recession deepened, it deserved a premium, now it seems rightly to be at a cross-over point as attention switches to cyclical recovery stocks. But with the air still thick with reasons for caution, it is worth holding for its reliable qualities.

Premier Cons boosted by new developments

By David Lascelles, Resources Editor

PREMIER Consolidated Oilfields, the independent oil company, raised pre-tax profits by 29 per cent at the interim stage, as new developments began to make a contribution.

The company earned £8m before tax, up from £6.2m, in the six months to June 30 1992.

The figures reflected the full impact of Wytch Farm production and a significant contribution from the North Sea.

Mr Roland Shaw, chairman, said the result marked Premier's aim of generating enough cash flow for a substantial exploration and production programme without having to call on shareholders.

● Goal Petroleum made pre-tax profits of £3.94m, an increase of 7 per cent, in the six months to June 30.

Gearing was reduced to 20.7 per cent of shareholders' funds.

Thames Television returns to the black with £15.2m

By Raymond Snoddy

THAMES TELEVISION's last year as an ITV contractor is proving to be a bumper one. Pre-tax profits for the six months to June 30 amounted to £15.2m, compared with losses last time of £4.04m.

Lord Brabourne, chairman of Thames, at present the largest ITV company, said the results showed the progress made in achieving two main objectives: maximising shareholder value from the last year of the London weekday franchise and transforming the group's activities for the years ahead.

"I have every confidence in the future of Thames as a major force in television."

The group increased its share of ITV adverting revenue from 15.45 per cent to 15.73 per cent, a total of £121.6m.

Earnings per share emerged at 17.5p compared with losses of 8.6p. The interim dividend is unchanged at 2.5p.

Apart from the rise in advertising revenue and cost cutting, reductions in Exchequer Levy also helped the group's position. Reeves, the US production subsidiary, continued to incur an operating loss but positive signs included Covington Cross, a 13-part drama series commissioned for ABC.

Thames recently concluded a £28.9m programming deal with ITV for the first eight months of 1993. The company is also in a joint venture with the BBC to launch UK Gold, a new satellite channel based on library programmes. In addition Thames made a £1,000 minimum bid for the new fifth television channel in the UK.

Sanderson Murray falls 17%

TWO RECENT acquisitions took a substantial bite out of profits at Sanderson Murray & Elder (Holdings). The north of England motor dealer reported a 17 per cent fall in pre-tax figures from £765,000 to £633,000 for the first half of 1992.

Mr Tony Bramall, chairman, said neither of the two recent acquisitions – dealerships in Gateshead and Manchester – had performed well. However, the group as a whole had a good August.

The group handled 3,300 new vehicle sales in the half year – nearly 4 per cent down on last year, while almost 2,000 used vehicles were retailed – a 3.5 per cent fall. Margins on used cars were in line with 1991, but new car margins were under extreme competitive pressure.

The service, parts and body repair activities contributed more than 60 per cent of total profits.

Turnover jumped from £27.5m to £51.1m. Earnings per share dropped to 2.87p (4.8p), while the interim dividend is in effect maintained at 0.6p after adjusting for the share sub-division.

EBC falls 60% and dividend is halved

A FURTHER deterioration in trading conditions meant EBC Group, the west country construction and development group, suffered a 60 per cent fall in first half profits and has halved its interim dividend.

Mr Herbert Cockroft, chairman, said the result, while disappointing, was still creditable during the most severe economic recession in memory.

Pre-tax profits for the first half of 1992 dived to £535,000 (£1.34m) on turnover 10 per cent lower at £25.3m. Earnings per share were 3.31p (6.74p) and the interim dividend came to 1.75p (3.5p).

Marwood Homes, the housing offshoot, again suffered substantial losses in the period.

With the market unlikely to improve in the short term, Mr Cockroft warned of further losses in the second half. He said future options for this operation were therefore being reviewed.

PETRÓLEO BRASILEIRO S.A. – PETROBRÁS

Notice of Meeting

To the holders of the U.S. $300,000,000 10% Notes due 1993 of Petróleo Brasileiro S.A. – PETROBRÁS

NOTICE IS HEREBY GIVEN in accordance with the provisions of the Trust Deed dated February 4, 1992 and made between Petróleo Brasileiro S.A. – PETROBRÁS (the "Issuer") and The Law Debenture Trust Corporation p.l.c. (the "Trust Deed") relating to the above-mentioned Notes (the "Notes") that a Meeting (the "Meeting") of the holders (the "Noteholders") of the Notes is convened by the Issuer and will be held at 11:00 a.m. on 12th October, 1992 at the offices of Slaughter and May at Woolgate House, Coleman Street, London EC2 (or, if later, immediately after the conclusion of the meeting of holders of U.S. $250,000,000 10% Notes due 1992 issued by the Issuer convened for 10:30 a.m. on the same date and at the same location) for the purpose of considering and, if thought fit, passing the resolution set out below which will be proposed as an Extraordinary Resolution.

Details of the background to, and the reasons for, the proposed Extraordinary Resolution are contained in an Explanatory Statement, copies of which are available for collection by Noteholders at the specified offices of the Principal Paying Agent and the other Paying Agents (together, the "Agents"), the Registrar and the Transfer Agents, the addresses of which are stated below. No opinion is expressed by The Law Debenture Trust Corporation p.l.c. on the merits of the proposed Extraordinary Resolution.

The resolution to be proposed at the Meeting is as follows:–

EXTRAORDINARY RESOLUTION

"THAT this meeting of the holders of the U.S. $300,000,000 10% Notes due 1993 (the "Notes") of Petróleo Brasileiro S.A. – PETROBRÁS (the "Issuer"), constituted by a Trust Deed (the "Trust Deed") dated February 4, 1992 and made between the Issuer and The Law Debenture Trust Corporation p.l.c., hereby:–

(i) irrevocably approves and sanctions an amendment of the Terms and Conditions of the Notes at the request of the Issuer so that Condition 4 thereof shall be substituted by the following:–

"4. Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed):–

(a) the Issuer will not create or permit to subsist any Security, other than Permitted Security, upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure (i) any of its Indebtedness (ii) any of its Guarantees or (iii) the Indebtedness or Guarantees of any other person;

(b) the Issuer will procure that none of its Subsidiaries will create or permit to subsist any Security, other than Permitted Security, upon the whole or any part of such Subsidiary's undertaking or assets, present or future (including any uncalled capital), to secure (i) any of the Issuer's Indebtedness or Guarantees (ii) any of its own Indebtedness or Guarantees or (iii) the Indebtedness or Guarantees of any other person;

(c) the Issuer will not permit any person, other than an Official Person in respect of Relevant Indebtedness, to give a Guarantee in respect of (i) its own Indebtedness or Guarantees or (ii) the Indebtedness or Guarantees of any of its Subsidiaries;

(d) the Issuer will (i) not give a Guarantee, other than a Permitted Guarantee, of the Indebtedness or Guarantees of its Subsidiaries or (ii) not give a Guarantee of the Indebtedness or Guarantees of any other person;

without (except in the case of paragraphs (c) and (d)) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or providing such other security for the Notes as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or which shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders.

For this purpose and in the case of "Subsidiary" for the purposes of Condition 9:–

(1) "Guarantee" means any obligation of a person to pay the Indebtedness of another person including without limitation:–

(A) an obligation to pay or purchase such Indebtedness;

(B) an obligation to lend money or to purchase or subscribe for shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(C) an indemnity against the consequences of a default in the payment of such Indebtedness; or

(D) any other agreement to be responsible for such Indebtedness.

(2) "Indebtedness" means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing).

(3) "Official Person" means (a) the Brazilian Federal Government or any Brazilian governmental agency or department, (b) any official governmental agency or department of any other country, (c) any export credit agency of any country or (d) any supranational or multilateral agency or entity.

(4) "Permitted Guarantee" means a Guarantee by the Issuer of any Indebtedness of any of its Subsidiaries in connection with the construction or acquisition (a) by any Subsidiary of any drilling rig, drilling or production platform or marine vessel or (b) by any Subsidiary beneficially owned as to 100% of its voting and other rights by the Issuer of any other plant or equipment which the Issuer certifies to the Trustee (and on which the Trustee may rely without enquiry) is more advantageously acquired or constructed by such Subsidiary than the Issuer.

(5) "Permitted Security" means:–

(A) Security granted in respect of Indebtedness incurred by the Issuer or any of its Subsidiaries in the ordinary course of business of the Issuer or, as the case may be, such Subsidiary in connection with the construction or acquisition of any drilling rig, drilling or production platform or marine vessel; and

(B) Security granted in respect of Indebtedness incurred after the date hereof by the Issuer or any of its Subsidiaries to acquire, develop or construct any plant or equipment provided that Security shall only be granted over such plant or equipment and such Indebtedness shall not exceed 80% of the value of such plant or equipment (as determined by the lender of such Indebtedness and certified to the Trustee (and on which the Trustee may rely without enquiry)).

(6) "person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality.

(7) "Public Indebtedness" means Indebtedness which is in the form of, or represented by, bonds, notes or other securities which are for the time being or are capable of being or are intended to be quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market.

(8) "Relevant Indebtedness" means Indebtedness of the Issuer or any of its Subsidiaries other than Public Indebtedness.

(9) "Security" means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance including, without limitation, any equivalent created or arising under the laws of Brazil.

(10) "Subsidiary" means, at any particular time, any person whose affairs and policies the Issuer controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of that person or otherwise, other than a person incorporated in Brazil in the process of liquidation at the date this Condition was approved by Extraordinary Resolution of Noteholders (being Petrobrás Comércio Internacional S.A. – INTERBRÁS).";

(ii) sanctions every modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the holders of the Notes and/or the holders of the coupons appertaining thereto against the Issuer involved in or resulting from the passing of this Resolution; and

(iii) authorises the parties to the Trust Deed to execute all such documents and to do all such other acts and things, in each case, as may be necessary to carry out and give effect to this Extraordinary Resolution and so that the amendment to Condition 4 set out above shall take effect from the date on which the Issuer and the Trustee enter into a supplemental trust deed agreeing to such amendment."

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for an adjourned Meeting which is set out in "Voting and Quorum" below.

VOTING AND QUORUM

The following is a summary of certain provisions contained in the Trust Deed. Noteholders should refer to the Trust Deed to obtain full details of the provisions governing meetings of Noteholders.

1 (a) Bearer Notes

A holder of Notes in bearer form ("Bearer Notes") wishing to attend and vote at the Meeting in person must produce at the Meeting either the Bearer Notes, or one or more valid voting certificates issued by one of the Agents relating to the Bearer Notes, in respect of which he wishes to vote.

A holder of Bearer Notes not wishing to attend and vote at the Meeting in person may deliver his Bearer Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Agents, the addresses of which are set out below) instructing an Agent to appoint a proxy to attend and vote at the Meeting in accordance with the voting instruction.

Bearer Notes may be deposited with (or to the order of) any Agent for the purpose of obtaining voting certificates or appointing proxies at any time until 48 hours before the time fixed for the Meeting, but not thereafter. For this purpose, Bearer Notes held in the Euroclear Clearance System in a "blocked" account or by Cedel in a blocked internal account, notice of which has been given by the Euroclear Operator or, as the case may be, Cedel to the Principal Paying Agent, will be treated as though such Notes had been deposited with the Principal Paying Agent. Voting instructions and instructions to issue voting certificates will in such circumstances be given to the Principal Paying Agent by the Euroclear Operator or, as the case may be, Cedel. Bearer Notes so deposited or held will be released at the conclusion of the Meeting (or, if applicable, any adjournment of the Meeting for which voting certificates and voting instructions will be valid) or upon the surrender to the Paying Agent which issued the same of the voting certificates or, being not less than 48 hours before the time for which the Meeting (or, if applicable, any adjournment of the Meeting) is convened, upon the surrender of the voting instruction receipts issued in respect thereof and notice of such surrender being given by such Agent to the Issuer.

(b) Registered Notes

A holder of Notes in registered form ("Registered Notes") wishing to attend and vote at the Meeting in person must produce at the Meeting the Notes of which he is the registered holder.

A holder of Registered Notes not wishing to attend and vote at the Meeting in person may by a form of proxy in the English language (obtainable from either of the Transfer Agents at their specified offices set out below) signed by the holder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation, appoint any person as a proxy to act on his or its behalf in connection with the Meeting (or, if applicable, any adjournment of the Meeting). To be valid a form of proxy (together with the power of attorney (if any) or other authority under which it was executed or a notarially certified copy of such power or authority) must be delivered to the specified office of a Transfer Agent not less than 24 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of the Meeting).

Any holder of Registered Notes which is a corporation may by resolution in the English language of its directors or other governing body authorise any person to act as its representative (hereinafter called a "representative") in connection with the Meeting (or, if applicable, any adjournment of the Meeting). An executed copy of such resolution must be delivered to the specified office of a Transfer Agent not less than 24 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of the Meeting).

2. The quorum required at the Meeting is two or more persons present in person holding Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate a clear majority in principal amount of the Notes for the time being outstanding. If within fifteen minutes from the time fixed for the Meeting a quorum is not present, the Meeting will be adjourned for such period, not being less than fourteen days nor more than forty-two days, and to such place, as may be decided by the Chairman of the Meeting. At least ten days' notice of the adjourned Meeting will be given in the same manner as for the original Meeting. The quorum at the adjourned Meeting will be two or more persons present in person holding Notes or voting certificates or being proxies or representatives (whatever the principal amount of the Notes so held or represented) and they shall have the power to pass the Extraordinary Resolution and to decide upon all matters which could properly have been dealt with at the Meeting from which the adjournment took place had a quorum been present at the Meeting.

3 Every question submitted to the Meeting or the adjourned Meeting will be decided by a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman of the Meeting or by the Issuer, the Trustee or by one or more persons holding one or more Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than one-fiftieth in principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and who produces a Note or voting certificate or is a proxy or a representative shall have one vote. On a poll every person who is so present shall have one vote in respect of each U.S. $1,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy or a representative. In the case of equality of votes the Chairman of the Meeting shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) which he may have as a Noteholder or as a holder of a voting certificate or as a proxy or representative. Without prejudice to the obligations of proxies named in any block voting instruction, any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.

4. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-quarters of the votes cast. If passed, the Extraordinary Resolution will be binding upon all the Noteholders, whether present or not at the Meeting, and upon all the holders of coupons relating to them (the "Couponholders"), and each of the Noteholders and Couponholders will be bound to give effect thereto accordingly.

AVAILABILITY OF DOCUMENTS

Copies of the Trust Deed and the Agency Agreement relating to the Notes may be inspected, and copies of the Explanatory Statement may be obtained, by Noteholders at or from the specified offices of the Agents, the Registrar and the Transfer Agents, the addresses of which are set out below. Voting instruction forms and voting certificates may be obtained by Noteholders from the specified offices of the Agents listed below. Forms of proxy for holders of Registered Notes may be obtained from the specified offices of the Transfer Agents listed below.

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

The Chase Manhattan Bank, N.A., Woolgate House, Coleman Street, London EC2P 2HD

REGISTRAR AND TRANSFER AGENT

The Chase Manhattan Bank, N.A., Corporate Trust Administration, 1 New York Plaza, New York, NY 10081

PAYING AGENTS

Banque Bruxelles Lambert S.A., 24 Avenue Marnix, B-1050 Brussels

Chase Manhattan Bank Luxembourg S.A., 5 Rue Plaetis, L-2338 Luxembourg-Grund

Dated 16th September, 1992

The Chase Manhattan Bank, N.A., for and on behalf of Petróleo Brasileiro S.A. – PETROBRÁS

PETRÓLEO BRASILEIRO S.A. – PETROBRÁS

Notice of Meeting

To the holders of the U.S. $200,000,000 10 per cent. Notes due 1996 of Petróleo Brasileiro S.A. – PETROBRÁS

NOTICE IS HEREBY GIVEN in accordance with the provisions of the Trust Deed dated September 12, 1991 and made between Petróleo Brasileiro S.A. – PETROBRÁS (the "Issuer") and The Law Debenture Trust Corporation p.l.c. (the "Trust Deed") relating to the above-mentioned Notes (the "Notes") that a Meeting (the "Meeting") of the holders (the "Noteholders") of the Notes is convened by the Issuer and will be held at 11:30 a.m. on 12th October, 1992 at the offices of Slaughter and May at Woolgate House, Coleman Street, London EC2 (or, if later, immediately after the conclusion of the meeting of holders of U.S. $300,000,000 10% Notes due 1993 issued by the Issuer convened for 11:00 a.m. on the same date and at the same location) for the purpose of considering and, if thought fit, passing the resolution set out below which will be proposed as an Extraordinary Resolution.

Details of the background to, and the reasons for, the proposed Extraordinary Resolution are contained in an Explanatory Statement, copies of which are available for collection by Noteholders at the specified offices of the Principal Paying Agent and the other Paying Agents (together, the "Agents"), the Registrar and the Transfer Agents, the addresses of which are stated below. No opinion is expressed by The Law Debenture Trust Corporation p.l.c. on the merits of the proposed Extraordinary Resolution.

The resolution to be proposed at the Meeting is as follows:–

EXTRAORDINARY RESOLUTION

"THAT this meeting of the holders of the U.S. $200,000,000 10 per cent. Notes due 1996 (the "Notes") of Petróleo Brasileiro S.A. – PETROBRÁS (the "Issuer"), constituted by a Trust Deed (the "Trust Deed") dated September 12, 1991 and made between the Issuer and The Law Debenture Trust Corporation p.l.c., hereby:–

(i) irrevocably approves and sanctions an amendment of the Terms and Conditions of the Notes at the request of the Issuer so that Condition 4 thereof shall be substituted by the following:–

"4. Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed):–

(a) the Issuer will not create or permit to subsist any Security, other than Permitted Security, upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure (i) any of its Indebtedness (ii) any of its Guarantees or (iii) the Indebtedness or Guarantees of any other person;

(b) the Issuer will procure that none of its Subsidiaries will create or permit to subsist any Security, other than Permitted Security, upon the whole or any part of such Subsidiary's undertaking or assets, present or future (including any uncalled capital), to secure (i) any of the Issuer's Indebtedness or Guarantees (ii) any of its own Indebtedness or Guarantees or (iii) the Indebtedness or Guarantees of any other person;

(c) the Issuer will not permit any person, other than an Official Person in respect of Relevant Indebtedness, to give a Guarantee in respect of (i) its own Indebtedness or Guarantees or (ii) the Indebtedness or Guarantees of any of its Subsidiaries;

(d) the Issuer will (i) not give a Guarantee, other than a Permitted Guarantee, of the Indebtedness or Guarantees of its Subsidiaries or (ii) not give a Guarantee of the Indebtedness or Guarantees of any other person;

without (except in the case of paragraphs (c) and (d)) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or providing such other security for the Notes as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or which shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders.

For this purpose and in the case of "Subsidiary" for the purposes of Condition 9:–

(1) "Guarantee" means any obligation of a person to pay the Indebtedness of another person including without limitation:–

(A) an obligation to pay or purchase such Indebtedness;

(B) an obligation to lend money or to purchase or subscribe for shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(C) an indemnity against the consequences of a default in the payment of such Indebtedness; or

(D) any other agreement to be responsible for such Indebtedness.

(2) "Indebtedness" means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing).

(3) "Official Person" means (a) the Brazilian Federal Government or any Brazilian governmental agency or department, (b) any official governmental agency or department of any other country, (c) any export credit agency of any country or (d) any supranational or multilateral agency or entity.

(4) "Permitted Guarantee" means a Guarantee by the Issuer of any Indebtedness of any of its Subsidiaries in connection with the construction or acquisition (a) by any Subsidiary of any drilling rig, drilling or production platform or marine vessel or (b) by any Subsidiary beneficially owned as to 100% of its voting and other rights by the Issuer of any other plant or equipment which the Issuer certifies to the Trustee (and on which the Trustee may rely without enquiry) is more advantageously acquired or constructed by such Subsidiary than the Issuer.

(5) "Permitted Security" means:–

(A) Security granted in respect of Indebtedness incurred by the Issuer or any of its Subsidiaries in the ordinary course of business of the Issuer or, as the case may be, such Subsidiary in connection with the construction or acquisition of any drilling rig, drilling or production platform or marine vessel; and

(B) Security granted in respect of Indebtedness incurred after the date hereof by the Issuer or any of its Subsidiaries to acquire, develop or construct any plant or equipment provided that Security shall only be granted over such plant or equipment and such Indebtedness shall not exceed 80% of the value of such plant or equipment (as determined by the lender of such Indebtedness and certified to the Trustee (and on which the Trustee may rely without enquiry)).

(6) "person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality.

(7) "Public Indebtedness" means Indebtedness which is in the form of, or represented by, bonds, notes or other securities which are for the time being or are capable of being or are intended to be quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market.

(8) "Relevant Indebtedness" means Indebtedness of the Issuer or any of its Subsidiaries other than Public Indebtedness.

(9) "Security" means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance including, without limitation, any equivalent created or arising under the laws of Brazil.

(10) "Subsidiary" means, at any particular time, any person whose affairs and policies the Issuer controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of that person or otherwise, other than a person incorporated in Brazil in the process of liquidation at the date this Condition was approved by Extraordinary Resolution of Noteholders (being Petrobrás Comércio Internacional S.A. – INTERBRÁS).";

(ii) sanctions every modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the holders of the Notes and/or the holders of the coupons appertaining thereto against the Issuer involved in or resulting from the passing of this Resolution; and

(iii) authorises the parties to the Trust Deed to execute all such documents and to do all such other acts and things, in each case, as may be necessary to carry out and give effect to this Extraordinary Resolution and so that the amendment to Condition 4 set out above shall take effect from the date on which the Issuer and the Trustee enter into a supplemental trust deed agreeing to such amendment."

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for an adjourned Meeting which is set out in "Voting and Quorum" below.

VOTING AND QUORUM

The following is a summary of certain provisions contained in the Trust Deed. Noteholders should refer to the Trust Deed to obtain full details of the provisions governing meetings of Noteholders.

1. (a) Bearer Notes

A holder of Notes in bearer form ("Bearer Notes") wishing to attend and vote at the Meeting in person must produce at the Meeting either the Bearer Notes, or one or more valid voting certificates issued by one of the Agents relating to the Bearer Notes, in respect of which he wishes to vote.

A holder of Bearer Notes not wishing to attend and vote at the Meeting in person may deliver his Bearer Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Agents, the addresses of which are set out below) instructing an Agent to appoint a proxy to attend and vote at the Meeting in accordance with the voting instruction.

Bearer Notes may be deposited with (or to the order of) any Agent for the purpose of obtaining voting certificates or appointing proxies at any time until 48 hours before the time fixed for the Meeting, but not thereafter. For this purpose, Bearer Notes held in the Euroclear Clearance System in a "blocked" account or by Cedel in a blocked internal account, notice of which has been given by the Euroclear Operator or, as the case may be, Cedel to the Principal Paying Agent, will be treated as though such Notes had been deposited with the Principal Paying Agent. Voting instructions and instructions to issue voting certificates will in such circumstances be given to the Principal Paying Agent by the Euroclear Operator or, as the case may be, Cedel. Bearer Notes so deposited or held will be released at the conclusion of the Meeting (or, if applicable, any adjournment of the Meeting for which voting certificates and voting instructions will be valid) or upon the surrender to the Paying Agent which issued the same of the voting certificates or, being not less than 48 hours before the time for which the Meeting (or, if applicable, any adjournment of the Meeting) is convened, upon the surrender of the voting instruction receipts issued in respect thereof and notice of such surrender being given by such Agent to the Issuer.

(b) Registered Notes

A holder of Notes in registered form ("Registered Notes") wishing to attend and vote at the Meeting in person must produce at the Meeting the Notes of which he is the registered holder.

A holder of Registered Notes not wishing to attend and vote at the Meeting in person may by a form of proxy in the English language (obtainable from any of the Transfer Agents at their specified offices set out below) signed by the holder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation, appoint any person as a proxy to act on his or its behalf in connection with the Meeting (or, if applicable, any adjournment of the Meeting). To be valid a form of proxy (together with the power of attorney (if any) or other authority under which it was executed or a notarially certified copy of such power or authority) must be delivered to the specified office of a Transfer Agent not less than 24 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of the Meeting).

Any holder of Registered Notes which is a corporation may by resolution in the English language of its directors or other governing body authorise any person to act as its representative (hereinafter called a "representative") in connection with the Meeting (or, if applicable, any adjournment of the Meeting). An executed copy of such resolution must be delivered to the specified office of a Transfer Agent not less than 24 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of the Meeting).

2. The quorum required at the Meeting is two or more persons present in person holding Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate a clear majority in principal amount of the Notes for the time being outstanding. If within fifteen minutes from the time fixed for the Meeting a quorum is not present, the Meeting will be adjourned for such period, not being less than fourteen days nor more than forty-two days, and to such place, as may be decided by the Chairman of the Meeting. At least ten days' notice of the adjourned Meeting will be given in the same manner as for the original Meeting. The quorum at the adjourned Meeting will be two or more persons present in person holding Notes or voting certificates or being proxies or representatives (whatever the principal amount of the Notes so held or represented) and they shall have the power to pass the Extraordinary Resolution and to decide upon all matters which could properly have been dealt with at the Meeting from which the adjournment took place had a quorum been present at the Meeting.

3. Every question submitted to the Meeting or the adjourned Meeting will be decided by a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman of the Meeting or by the Issuer, the Trustee or by one or more persons holding one or more Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than one-fiftieth in principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and who produces a Note or voting certificate or is a proxy or a representative shall have one vote. On a poll every person who is so present shall have one vote in respect of each U.S. $10,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy or a representative. In the case of equality of votes the Chairman of the Meeting shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) which he may have as a Noteholder or as a holder of a voting certificate or as a proxy or representative. Without prejudice to the obligations of proxies named in any block voting instruction, any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.

4. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-quarters of the votes cast. If passed, the Extraordinary Resolution will be binding upon all the Noteholders, whether present or not at the Meeting, and upon all the holders of coupons relating to them (the "Couponholders"), and each of the Noteholders and Couponholders will be bound to give effect thereto accordingly.

AVAILABILITY OF DOCUMENTS

Copies of the Trust Deed and the Agency Agreement relating to the Notes may be inspected, and copies of the Explanatory Statement may be obtained, by Noteholders at or from the specified offices of the Agents, the Registrar and the Transfer Agents, the addresses of which are set out below. Voting instruction forms and voting certificates may be obtained by Noteholders from the specified offices of the Agents listed below. Forms of proxy for holders of Registered Notes may be obtained from the specified offices of the Transfer Agents listed below.

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

Morgan Guaranty Trust Company of New York, 60 Victoria Embankment, London EC4Y 0JP

PAYING AGENTS

Morgan Guaranty Trust Company of New York, Avenue des Arts, 35, B-1040 Brussels

Swiss Bank Corporation, 1 Aeschenvorstadt, CH-4002 Basle

REGISTRAR AND TRANSFER AGENT

Morgan Guaranty Trust Company of New York, 55 Exchange Place, New York, NY 10260-1023

PAYING AND TRANSFER AGENT

Banque Paribas Luxembourg, 10A boulevard Royal, L-2093 Luxembourg

Dated 16th September, 1992

Morgan Guaranty Trust Company, for and on behalf of Petróleo Brasileiro S.A. – PETROBRÁS

JOBS: Whatever employers say about seeking 'character', the best bet is to keep to the safe profile

The only useful way to be outstanding

IF any secret service chiefs around the world are looking for English-speaking agents, they might care to contact headhunter John McManus. He says a lot of the people he interviews these days strike him as being ideal for such work. The reason is that once they've gone out of the door, he can no longer remember what they look like.

Who is to blame for same is of course a moot point. After all, even recruitment consultants are not proof against the ravages of age, including amnesia.

For his part, 57-year-old Mr McManus insists that, as far as he can recall, his memory is as good as ever. A more probable explanation for the increased forgettability of candidates, he thinks, is that the herd-instinct has been strengthened by the recession. With so many people chasing so few openings, they are averse to the risk of seeming to stand out as unusual, preferring the shelter of the safe profile.

"It's paradoxical, because the more unexceptionably qualified candidates there are around, the more vital it is to be exceptional," he adds. "But daft though it be, that's what I see as happening."

Alas, if his explanation is right, he and his fellow executive-recruiters can expect to see candidates become still more forgettable over the next year or two – at least in Britain. That much seems clear from the response to my appeal eight weeks ago for hard evidence about so-called "de-layering" by employers, which is reputedly abolishing managerial jobs wholesale and probably for ever.

While most of the replies were anecdotal, and even they reported little such activity in continental Europe, the British Institute of Management produced figures. They came from a survey it had just made in conjunction with Manpower UK of the heads of 163 big employers in Britain.

It turned out that, since 1985, about two thirds of them had cut their managerial staff by at least one whole layer. Moreover, two in every five planned to do the same again by 1996. By contrast, a mere 3 per cent were expecting to employ more managers in any way whatsoever.

Hence it would appear that the chances of getting taken on for a management job will increasingly depend on bucking the herd-instinct and presenting oneself as exceptional. Unfortunately, however, that is something which is far easier to theorise about than it is to put into practice successfully.

Indeed, there are good reasons to believe that the percentage game rests with the safe profile. For a start, there are many ways of being unusual, and the odds are against hitting on the right choice for any given occasion.

The problem in not only that recruiters' prejudices are such that an outstanding trait which appeals to one is apt to repel a second. There's a still greater chance of just failing to sway them either one way or the other. For instance, John McManus says the most memorable candidates he has seen in the past year were three who turned up in bow ties. None of them got the job.

Even stronger support for the safe profile lies in research published four years ago by the Institute of Manpower Studies. It indicated that most recruiters in Britain, and especially the majority with no training in interviewing, approach the task defensively. Instead of setting out to choose the right candidate, they are primarily concerned to avoid picking the wrong one. Save for such eccentricities as being related to the company chairman, unusual traits are liable to provoke rejection.

All of which points to a drab dilemma for ambitious managers. The percentage game is to match each likely opening with an unexceptionable application, then support it when so invited with a characterless performance at interview, and wait for the law of averages to deliver. The snag is that, in an age of de-layering, the candidates may well be dead before their turn comes round. Yet what can they safely do to accelerate their acceptance?

Happily, there is a way of being exceptional that is not only safe, but productive. Or so we're told, at least, by theologian-cum-psychologist Max Eggert, who surrounds his one-day-week as a part-time priest with work as an outplacement consultant. He has just produced a book* on being interviewed, which besides being among the shortest of the many on the topic the Jobs column has read these past two decades, seems the most pertinent.

His thesis is that the only useful way of standing out from the similarly qualified herd is to be that remarkable rarity, the thoroughly adept interviewee.

True, such expertise will be swiftly twigged by the equally rare expert interviewers. But far from being antagonised by it, he says, they'll tend to respond warmly to the unusual chance to show their own mettle.

Meanwhile, on encountering the much commoner defensive amateurs, a skilful interviewee can achieve the same effect by "helping them" through their struggles, not least by feeding their anxious hunger for proofs of a safeness nobody – particularly not their superiors – could doubt.

Simply because that is usually the recruiter's main criterion, however, usefully exceptional candidates make sure to appear quite the opposite of outstanding in other ways. For example, recalling headhunter McManus's eye for points of dress, here is the book's advice thereon:

"It is easy to get information on corporate style. First, visit the firm about lunchtime a few days before the interview and notice what people are wearing in terms of style, colour and accessories.

"The other source of information is the company's Annual Report which these days features an obligatory picture of members of the board."

A further safeguard against emitting unsafe signals is to remember that crucial meetings tend to provoke a state of "high arousal" which can unsteady your physical movements.

Hence if you as a candidate are offered a cup of coffee, however much you want one, say no. The chances are that your shaking hand will at best spill the stuff messily in the saucer. (As that warning doesn't apply only to interviews of job-seeking kind, I wish I'd heard it long ago. Full many a time, when vainly trying to still my cup-clattering mitt, I've seen the eminence opposite clearly drawing the obvious conclusion from the bibulous image of my trade.)

Moreover, just as sins you don't have can be a danger, so can blessings which you do. One of the most dangerous is a talent for detecting and pointing out irrationalities in things other people say. "Never argue with job interviewers, no matter how charmingly," the book advises.

The sole exception comes at the last stage of the process, pay-haggling, and even then it is best to stick to a tested format. One Max Eggert recommends is the procedure by which Brooklyn opticians sell spectacles. It goes:

The lenses in these glasses are very reasonable – a mere $40...

Each...

That includes the standard frame, but this particular one costs $120...

If you want it in gold, that's another $50, although real rolled gold is $150...

We can deliver in four weeks instead of the normal six months, at a small service charge of $50.

Michael Dixon

* *The perfect interview. Century Business, £5.99.*

هكذا من الأصل

TOP OPPORTUNITIES

SENIOR POSITIONS IN GENERAL MANAGEMENT

The Paymaster General's Office

Crawley, West Sussex

The Paymaster General's Office encompasses three main business areas. These are:

- *Banking - the maintaining of accounts and provision of banking services for public sector bodies.*
- Pensions - the administration and payment of approximately 1.5 million public service pensions.
- Apex - the accumulation of financial statistics for the Treasury.

From April 1st 1993, the PGO assumes Executive Agency status under the Government's 'Next Steps' initiative.

This appointment assumes full responsibility for leading and directing the PGO at a key stage in its development.

The PGO aims to implement strategic plans designed to achieve a Total Quality Management approach in a more commercially orientated business environment. With the support of 3 Senior Directors and 9 Managers, you will oversee the implementation and achievement of all corporate policy and operational goals.

The Agency has approximately 864 staff and an annual budget of £25 million. An extensive remit will enable you to maximise productivity, quality of service and unit cost efficiency. To achieve this *your business acumen and analytical skills must be 1st class. You should* also be totally committed to the principles of team building and staff training and development.

The resulting launch of Executive Agency status therefore makes it imperative that you possess the persuasive powers and presence to manage change, encouraging new working practices and procedures, including pursuing market testing of services. A good standard of computer literacy is imperative to oversee the introduction of major new computer systems, designed to support this period of change and longer term business objectives.

Well developed communication and interpersonal skills are necessary as you will be operating at the highest levels, including liaising with customers and reporting directly to the appropriate Treasury Minister. As the Accounting Officer for the Agency, you will also deal with the National Audit Office and Public Accounts Committee on all matters relating to finance and value for money to the taxpayer.

We are *seeking applications from high calibre professionals, capable of strategic evaluation,* with an outstanding track record of senior managerial success in an IT led business environment of at least 500 personnel. Banking or pension administration experience would be preferred. You must also be able to demonstrate a good record of academic achievement.

The appointment will be initially for a term of 3 years with the possibility of extension, subject to performance.

Salary scale will be up to £39,000pa. (currently under review, more may be available for candidates with exceptional qualifications or experience) plus performance related pay linked to performance against agency targets. Benefits will include a non contributory pension scheme and annual leave allowance of 6 weeks. Relocation assistance will be provided, if appropriate.

For further details and an application form *(to be returned by 2nd October 1992), write to:* Recruitment & Assessment Services, Alencon Link, Basingstoke, Hampshire RG21 1JB or telephone Basingstoke (0256) 468551, fax (0256) 846660. Please quote reference B/1663/93.

PGO
PAYMASTER GENERAL'S OFFICE

An equal opportunities employer

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Stephanie Cox-Freeman
071 873 4027

Elizabeth Arthur
071 873 3694

The European Patent Office is seeking for its sub-office in Vienna a

Head of Publications

The European Patent Office is an international authority whose task it is to examine and grant patents on behalf of its 17 Member States. *Each year the European Patent Office receives some 70,000* patent applications from around the world. 4,000 people are employed by the Office, working in the three official languages - English, French and German.

The Patent System encourages technical innovation, on the one hand, by affording the inventor an exclusive right to exploit his invention and, on the other hand, through swift and widespread publication leading to the rapid dissemination of new technical ideas.

Patent Information has changed radically in recent years with the introduction of new publication methods at the European Patent Office - in particular CD-ROM has come to be of great importance.

The tasks of the Director of Publications will be to ensure that the publications of the Office and their production methods conform to the highest and most modern technical standards. The successful candidate should have considerable experience in this area. Other prerequisites include clear leadership qualities, a university degree, fluency in one of the official languages and a very good knowledge of the other two.

Your application should be sent to:

European Patent Office
Personnel Dept.
Schottenfeldgasse 29
A-1072 Vienna

before 30 September 1992.

SECRETARY-GENERAL

The European Atomic Forum (Foratom) is an international association representing the collective interests of 14 national organisations whose membership is engaged in the development and peaceful use of nuclear energy, a power source that currently meets 35% of Western Europe's electricity needs.

In recognition of the growing importance of EC-bodies in the policy and decision-making process, Foratom, which currently has its headquarters in London, is to transfer its office to Brussels and requires a Secretary-General to act as Chief Executive and to direct the activities of a small professional staff.

Knowledge of the energy sector, experience in public affairs and fluency in English and French (German desirable) is essential. The candidate is also likely to have had experience with European Community institutions.

The successful candidate, who will have the challenge of setting up his/her own organisation, must be able to function in an international environment, possess strong intellectual qualities, management ability and presentational skills.

The applicant will probably be in his/her forties to mid-fifties, with a track record of demonstrated achievement.

The compensation package is attractive.

Applications, accompanied by a curriculum vitae, should reach the Chairman of the Selection Committee

FORATOM, 22 Buckingham Gate, London SW1E 6LB, by 30th September, 1992.

BANKING FINANCE & GENERAL APPOINTMENTS

Global Custody Marketing

London **£ Negotiable**

Our client is one of the leading US Global Custody institutions, a reputation earned over nearly 120 years of providing high quality financial services to its clients. A recent reorganisation in the London office has resulted in a requirement to strengthen their Global Custody marketing team to compete for and win increased market share in the UK and European market place.

The individual will hold total management responsibility for major institutional relationships marketing global custody including associated treasury, cash management and stock lending products. A *strong marketing background combined* with a knowledge of a broad base of securities products is advantageous but more important is the ability to gain credibility at the most senior level within client institutions.

You are likely to be a graduate aged between 28 and 38, with some five years experience of marketing and/or sales in the financial products arena, ideally from a similar position within another Global Custody service provider. An excellent communicator, you should have a proven record of maintaining key relationship contacts and will ideally have a sound knowledge of the critical *elements of the Global Custody Services demanded* by clients.

This is an exceptional opportunity to work with a market leader in an attractive environment where you could enjoy long term career enhancement and a generous performance orientated remuneration package. Interested applicants should contact **Ann Semple** on **071 831 2000** or write to her enclosing a full curriculum vitae with details of your current salary package to **Michael Page City, Page House, 39-41 Parker Street,** ***London WC2B 5LH.***

MP
Michael Page City
International Recruitment Consultants
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Hungary – Venture Capital Fund

An Outstanding Career Opportunity in the Emerging Markets

Morgan Grenfell is the lead manager of Hungaria International Investments ("HII"), a turnaround and development fund, promoted by the Hungarian Government.

The Venture

The main features of HII are:

- HII will seek to acquire full control of around five medium-sized Hungarian enterprises from the State Property Agency ("SPA").
- HII will inject new capital (typically US$ 5 -10 million per company) and bring in experienced managers to restructure its subsidiaries over a two to three year period before selling them on to trade investors or other investors.
- HII will itself recruit a small management team combining general management, marketing, business planning and accounting skills reporting to the supervising merchant banking team.

The Opportunity

HII is now seeking to recruit the chief executive of its management team.

The individual will be an exceptionally experienced, high profile manager with an industrial background. He or she must be able to exhibit a progressive career history, preferably demonstrating successful participation in company turnarounds. The role will be to supply the extensive strategic planning skills and expertise required by the individual businesses.

The right candidate will be a person of stature and intellect who is currently in a senior position with strategic planning exposure within a large international industrial group. An ability to bring fresh innovative ideas to the venture is a prerequisite. Strong man-management skills and an ability to work as a part of a team will also be required. The successful candidate will be expected to assist quickly in the recruitment of the other members of the management team.

It is not a prerequisite that the candidate is able to speak Hungarian. However, a willingness to learn the language is desirable. The chief executive and management team will be based in Budapest, although immediate relocation is not necessarily expected, and will be supported by local management and sectoral specialists.

The Reward

For the right candidate, remuneration will not be a limiting factor and an ex-patriate package will be commensurate with the high calibre requirements attached to this opportunity.

Please forward in absolute confidence a full curriculum vitae to:

Martyn Drain
Morgan Grenfell & Co. Limited
23 Great Winchester Street
London EC2P 2AX

Global Non $ Swaps Support

London Product Controllers

Our client, one of the major US investment banks, now requires individuals with at least three years experience in swap trade support, operations, *and/or accounting, to join their dynamic and growing* swaps administration team. Your varied role supporting the Global Non $ Derivative Business will include:

- Economic sign off of new trades and ensuring the accuracy and completeness of documentation
- Controlling the booking of deals into the Operations, Accounting and *Risk Management Systems*
- Provide accounting back up to ensure the accuracy of the reported P/L
- Provide management with exception reports, details of non-standard trades and other information necessary to control the business
- Coordinate special handling on all complex swap and derivatives

Degree qualified with a numerate background, you will need a sound product knowledge including an understanding of swaps, cap/floors, swaptions and currency swaps. You will also understand the zero coupon curve, NPV, YTM, IRR, OYE, delta and bond valuation techniques.

Computer literacy is also important. An MBA or ACA would be ideal. In the first instance, please send a full CV to Clare Lockhart at the address below. Please list separately any companies to whom your details should not be sent as applications will be forwarded direct to our client for consideration.

BERNARD HODES
SELECTION

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We are looking for capable, self-motivated and experienced sales people to join an existing Fixed Income Group. Candidates should have an established client base and have worked for a ***minimum*** **of five years in the International Fixed Income Markets.**

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You will be involved in operational, analytical and project related tasks:

- Operational work will include involvement with dealing, confirmation and settlement, preparing reports and analysing market information.
- Analytical tasks will cover a wide range of Treasury matters, often on an ad hoc basis, including financial analysis.
- Project work will relate to project financing of a special or non recourse nature including funding of joint venture companies in the UK and overseas and specialist asset related financing. Specific tasks include analysis and negotiation of commercial and financial agreements, close liaison with other in house divisions and external advisors as well as contact with commercial banks and other financial institutions.

Ideally you will be familiar with borrowing techniques, investment products, currency management and derivative instruments, consideration will also be given to candidates with strong evidence of financial analytical skills, and understanding of commercial and financial agreements.

You should have sound educational qualifications, preferably to degree level or equivalent. Computer literacy, particularly with spreadsheet products is very desirable.

This is an outstanding opportunity to further your treasury skills working for a major Blue Chip Company. The salary will be in the region of £24k, negotiable.

Please write enclosing a full CV and current salary details quoting reference PG97/92 to the Recruitment Section, Personnal Services, PowerGen plc, Haslucks Green Road, Shirley, Solihull, West Midlands, B90 4PD.

PowerGen is committed to Equal Opportunities

POWERGEN

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Lorna McArthur
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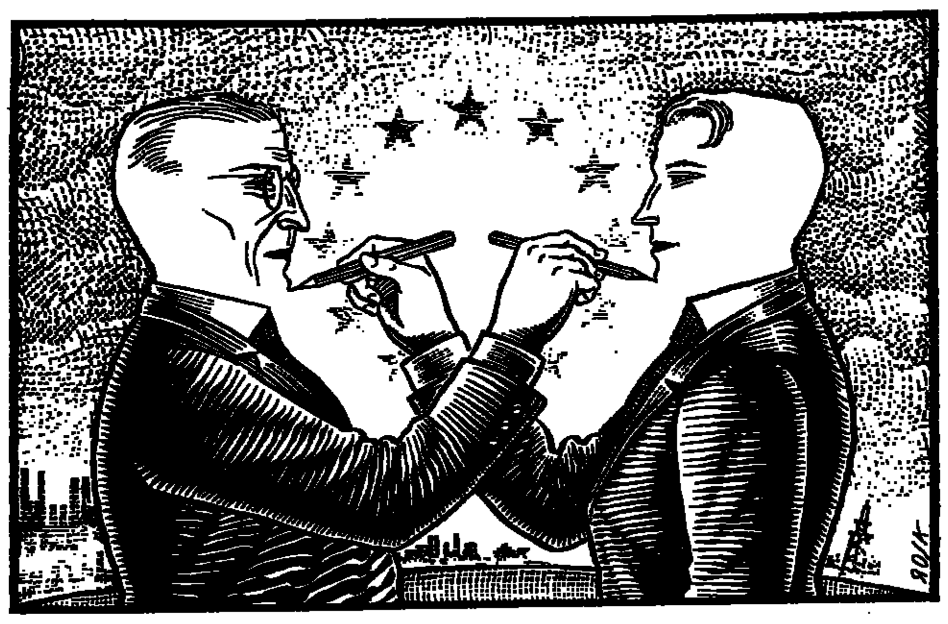

TEAM 92 EUROPEAN COMPANIES MEET STUDENTS

MILAN, 2ND AND 3RD DECEMBER 1992

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Il Sole 24 ORE

ACCOUNTANCY APPOINTMENTS

MP
Michael Page Finance
International Recruitment Consultants

REVIEW OF UK SENIOR FINANCIAL APPOINTMENTS

Over 12,000 senior executives, predominantly Managing Directors and Finance Directors already receive the Review of UK Senior Financial Appointments.

Compiled by Michael Page Finance, in conjunction with the Financial Times, this Review is the only comprehensive analysis of its type. It is an essential aid to manpower planning and budgeting, the determination of recruitment personnel and salary policies, and provides an immediate, up-to-date guide to the financial recruitment market.

Its contents include the identification of salary levels and recruitment volumes within the accountancy discipline, analysed by sector, size of company, level of appointment and geography. Comparisons are provided which demonstrate trends on an ongoing basis.

Distribution is exclusively to relevant executives and is available strictly on a requested basis.

If you would like to receive the Review, we will be pleased to send you a complimentary copy of the Autumn 1992 issue.

PLEASE ATTACH YOUR BUSINESS CARD HERE

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FINANCIAL TIMES
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FINANCIAL TIMES/LES ECHOS

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- Developing the interface with banks and insurance companies

University degree or Business school in Finance and Accounting.
3 to 5 years experience in an identical position or in auditing.
The position requires complete fluency in Romanian and a good command of English.

Please send your application in English to Laurence Etienne
Apple Computer Europe Inc.
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STEPHANIE COX-FREEMAN
071 873 4027

ACCOUNTANCY COLUMN

UK financial reports repay a diligent reader

Mike Davies, Ron Paterson and Allister Wilson on the need for skill in interpreting company accounts

THE STATE of UK financial reporting has provoked some agitated debate in recent weeks, even verging on a state of panic. It has been suggested that accounts have become so unreliable as to be valueless. We fundamentally disagree.

After months researching UK accounting policies and their application in the accounts of several hundred leading British companies for a book published today, we feel equipped to offer a different view.

No one would claim that the present rules on financial reporting in this country are ideal. But we believe British company accounts compare very favourably with those of most other countries, and provide a great deal of useful information for those with the skill to interpret it.

Regrettably, we sometimes wonder how many users of accounts really have that skill. Although this might be considered the fault of over-complicated accounts, we think it might equally be seen as a criticism of the users.

One perennial problem lies in the widespread misunderstanding of what accounts can, and cannot, do. Their arithmetical neatness suggests to the layman a precision and completeness that is in fact wholly unattainable. The affairs of large companies are highly complex, and can no more be encapsulated in a few simple measures than can the workings of the British economy.

Accounts should not be regarded as objective statements of fact, but only as a subjective and stylised description of a company's financial affairs.

The underlying reality which they seek to describe is to be found in the transactions which the company undertakes, and the cash flows which are derived from them. This is where objective reality stops, and subjective interpretation has to take over.

There is an extensive framework of rules and practices which govern the presentation of accounts. But their application requires considerable professional judgment, and different people will make different choices in exercising that judgment. In addition, accounts have to deal with estimates as well as known amounts, and there is obviously room for differences of opinion when making these estimates.

Sophisticated investors know this, and also understand the political motivations which influence the manner in which boards of directors wish to present their companies. Consequently, they treat the accounts with an appropriate degree of circumspection.

They also appreciate that the accounts are only a small part of the total information available about a company to assist their investment decisions, and give them appropriate weight alongside these other sources.

Despite this, we frequently hear cries such as: "How can Polly Peck go bust when its last accounts reported record profits?" Such a question can easily be answered by anyone diligent enough to have read the last accounts in full, as they clearly demonstrate that this was a high risk investment and not suitable for widows and orphans.

Both the low UK tax charge and the segmental analysis showed that most profit was not earned in the UK but in much more risky economies. A simple rearrangement of the statement of source and application of funds into the format of a cash flow statement would have revealed a very large outflow of cash from operating activities. It was also quite evident that the group had just taken on a very significant debt burden in connection with the Del Monte acquisition.

This is not to imply that the accounting profession can be self-satisfied about the state of UK financial reporting. Many companies produce excellent annual reports, and their boards clearly take their reporting responsibilities very seriously. But some others are much less praiseworthy and convey a shifty and devious impression, using creative accounting to prop up their otherwise sagging performance.

One positive feature of UK accounting rules is that they require extensive disclosures. These usually make it abundantly clear to the informed reader that the company is presenting a somewhat generous view of its financial position. For example, even though the existing standards on accounting for acquisitions are weak, the disclosure requirements are strong.

The unfortunate thing is that so few analysts and other commentators seem to be capable of recognising these signs. If they were, the market place itself could act as a more effective force for good accounting.

In the absence of a stronger influence towards good accounting from the market place, do the accounting rules need to be improved? In principle, yes, but this is easier said than done. We certainly do not need more rules. Accounting standards which seek to regulate every conceivable circumstance are ultimately self-defeating because they get bogged down in their own complexity and often open more loopholes than they close.

More insidiously, they risk changing the nature of financial reporting from a process of communication to a compliance exercise, in which anything which is not explicitly forbidden acquires a spurious legitimacy. That spawns an avoidance industry which sees accounting rules in the same light as tax laws.

Passing more laws does not make people more honest. What we need is clearer principles, which make it harder for preparers of accounts to rationalise dubious treatments both to themselves and to their auditors.

Based on our review of company accounts, we believe that some of the areas which are most open to abuse do not correspond to the apparent priorities of the Accounting Standards Board (ASB). These include fair value accounting, and the treatment of fixed assets and depreciation.

There are also a number of existing accounting standards which are in urgent need of reform. We would highlight SSAP 15, on deferred tax, and SSAP 24, on accounting for pension costs. Although the ASB commissioned studies on these issues a year ago, we have yet to see any results.

In addition, we have doubts about some of the topics already tackled by the ASB. Just ten months after the new cash flow standard was introduced, for example, our research shows that widespread inconsistencies have already developed through what we identify as deficiencies in the standard.

We are glad to see that the ASB has embarked on the most difficult challenge of all laying down a framework for accounting in its Statement of Principles. While we are not convinced that their proposals under this project so far are heading in the right direction, we entirely endorse their decision to undertake the quest.

But the main problem is one of interpretation. It is not that UK accounts fail to provide useful and reliable information. They convey a great deal to the diligent and skilled reader. What we most need is to expand the number of these readers with these attributes.

Mike Davies, Ron Paterson and Allister Wilson are members of the technical department of Ernst & Young and the authors of the third edition of UK GAAP, published by Macmillan today, price £44.95

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- Review and assessment of information systems, addressing both the effectiveness of internal controls and the potential for improvements in operations and applications.
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The successful applicant will be a graduate, professionally qualified accountant, with at least three years experience in EDP auditing, gained either in practice or industry. Your EDP experience would include audit in UNIX and VAX/VMS environments: systems development and wide area network experience would be advantageous. General audit experience should include exposure to multinational business operations. The ability to work as part of a team and liaise with senior management is essential, as is the willingness to travel extensively. While English is the company's business language, knowledge of a second European language would be useful.

Interested applicants should contact **Giles Daubeney** on (020) 6444 655, fax (020) 6429 005 or write to him at **Robert Walters Associates, 'Rivierstaete', Amsteldijk 166 1079 LH, Amsterdam.**

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You will be an exceptional ACA/ACMA in your late 20's/early 30's with broad financial management experience. Whilst not essential, Media or, more specifically, Television industry experience would be an advantage.

The commercial nature of the role demands that, in addition to a sound financial background, you will be able to demonstrate highly developed business and negotiation skills.

For further information in the strictest confidence, please contact Tim Musgrave on 071-240 1040. If you prefer, send your resume to: Ref. 22/1262, Morgan & Banks PLC, 114 St Martin's Lane, London WC2N 4AZ.

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Candidates should be qualified accountants with at least four years' sophisticated audit experience gained in a major practice or industrial company. Additional line accounting experience would also be useful. Commercial acumen, strong leadership skills and top-level credibility are essential. Our client is looking for someone with a well-developed international outlook. A second European language, preferably German, and experience of auditing in Europe would be a distinct advantage. Whilst the company would prefer to base this job in London, it is happy to consider candidates living near an international airport elsewhere in the UK or Europe.

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A degree qualified Chartered Accountant, you will need good Treasury product knowledge and ideally previous experience in developing accounting policy for Treasury & Capital Market products and an up-to-date knowledge of recent developments in accounting policy issues. Your background should demonstrate that you have an astute and logical mind, are able to present complex issues clearly and can quickly establish effective working relationships.

If you feel you are ready for this challenge, please send your C.V. to: Steve Barningham, Personnel Manager, The Royal Bank of Scotland plc, Regent's House, P.O. Box 348, 42 Islington High Street, London N1 8XL.

The closing date for applications is 9th October 1992.

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Qualified accountants who have progressed from running the finance function to general management of a small company or a division of a larger company in a distribution or similar business are invited to send a brief cv to Paul Collin FCA at FMCB Management Consultants Limited, Hathaway House, Popes Drive, Finchley, London N3 1QF. Telephone: 081-346-6446. Fax: 081-349-3990

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You can expect an attractive initial salary and benefits package which, with our determined commitment to the development of all our people, will yield long term growth for the true contributor.

Please write in strictest confidence to our recruitment advisor, Mark Brewer, at Brewer Morris, Pure Tax Recruitment, Ludgate House, 107 Fleet Street, London U.K., EC4A 2AB, or fax him on (071) 583 3888.

All applications will be referred to our advisors.

MOTOROLA

With assets exceeding £2.5bn and branches throughout the Midlands, we have become one of the UK's largest regional Building Societies, and one of the top 10 best performing societies.

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As well as a relevant degree and accountancy qualification, you will need senior level experience of your speciality probably gained in the financial sector.

We are looking for an outstanding manager who can combine a commercial perspective with the requirement to develop effective controls. You should have excellent staff management skills, together with the experience of building and maintaining a professional audit team. Good communication skills, personal integrity and intellect are also essential attributes.

The rewards will include a comprehensive package incorporating concessionary rate mortgage, car, private medical insurance and pension scheme and the chance to develop significantly within the role and within a successful organisation.

Please write with full career details to:
Mike Fitzgerald, Personnel Controller, Coventry Building Society, P.O. Box 105, 1st Floor, West Orchard House, 28 Corporation Street, Coventry CV1 1QR, quoting Ref: MHF/C105.

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Hanson PLC

Treasury

Hanson PLC requires an ambitious individual to join its small central management team based in London.

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Members of the small Treasury team are involved in most areas of Treasury management with scope for substantial personal responsibility.

The ideal applicant, male or female, will be a chartered accountant, MCT(Dip), have a good academic background and be aged 30-35.

The successful applicant will report directly to the Associate Director — Treasurer of Hanson PLC. Remuneration will not be a limiting factor for the right individual.

Applications should be made to:
The Associate Director — Treasurer, Hanson PLC,
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ODA

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Leicester Road
Ibstock
Leicestershire LE67 6HS

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Chartered Accountants Final Examination Results

on

Thursday 24th September, 1992.

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COMMODITIES AND AGRICULTURE

Opec agrees freeze at 24.2m barrels

By Neil Buckley in Geneva

THE ORGANISATION of Petroleum Exporting Countries yesterday agreed a freeze on oil production at 24.2m barrels a day, although Kuwait was expected to be allowed to increase its production by between 200,000 and 300,000 barrels a day.

If adhered to, the agreement would imply total Opec production reaching around 24.5m b/d during the fourth quarter – slightly less than some analysts had been expecting.

Observers said the move was clearly designed to boost oil prices towards the target of $21 a barrel for the Opec basket of crudes, and an Iranian official, speaking just after the meeting closed, said he expected specific reference to be made to this in the final communiqué.

Oil markets were expected to welcome Opec's decision to make a formal increase in its output ceiling rather than simply to roll over, for the second quarter running, the 22.98m b/d ceiling first adopted at its February meeting, but allow production to exceed this.

A full ministerial meeting took less than two hours to approve the new agreement in spite of earlier disputes between Saudi Arabia and Iran over the details. Saudi Arabia was thought to favour a freeze based on the August production figures submitted to Opec which gave it 8.4m b/d and Iran only 3.2m b/d. Iran was said to have sought an agreement based on proportional increases in the member countries' production ceilings adopted at Opec's February meeting, which would have given it a larger share of output.

It was unclear as the meeting ended last night precisely how the 24.2m b/d was to be split between the member countries. Iran was said to have reservations about the agreement which it was preparing to disclose later last night. An Iranian official had earlier told reporters Iran wanted Opec's real level of production cut to no more than 24m b/d to push prices up to the $21 target.

If Opec's total output were not cut, he had warned, Iran would insist on raising its own production from its current level of 3.2m b/d to compensate for loss of income due to the recent fall in value of the dollar – the currency in which oil is traded.

However, analysts doubted Iran's claims that it could lift production substantially. Some suggested Iran's comments were political posturing ahead of what is expected to be a more difficult Opec meeting in Vienna in November, when the thorny topic of members' output quotas is likely to be discussed.

Time to take stock of the powers that be

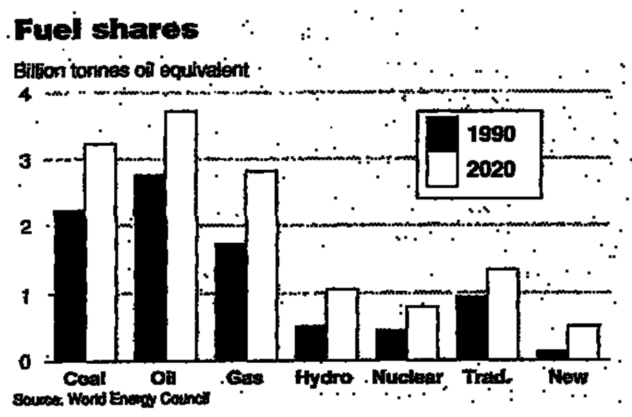
World energy chiefs are preparing for their triennial conference, writes David Lascelles

On Sunday evening, as Europe awaits the outcome of the French referendum, King Carlos of Spain will be welcoming 4,000 representatives of the energy business to Madrid for the World Energy Congress.

This triennial event provides the energy community with an occasion to take stock. Piles of reports, examining every aspect from windmills to nuclear power in the 22nd century have been prepared. For five days, the issues will be debated, and recommendations put forward.

But it is already clear that the WEC will have a comforting message for much of the rest of the world. The forecasts that have been prepared for delegates show that energy will be in plentiful supply up to the year 2020 – and beyond. Even the most conservative estimates suggest that there is enough oil for over 40 years, enough gas for over 50, and enough coal and lignite to last for centuries.

The WEC has three possible scenarios. The "reference case" which assumes continuation of present policies foresees world energy consumption going up from 8.7bn tonnes of oil equivalent to 13.3bn in 2020. But if the Third World countries accelerate their economic growth, this would go up to 17.2bn. On the other hand, if pressures to protect the environment intensify, consumption may only rise to 11.2bn. One benign factor is the large scope for increased energy efficiency in the former communist states of east Europe.



These forecasts show that the decisive issue in the years ahead will not be the rate of economic activity in the industrial countries (where expanding demand will be offset by greater energy efficiency), but the pace of development in the third world, and the extent to which ecological factors become the dominant global concern.

In fact, the third world occupies a leading position in the WEC brief. The report notes that there are still large parts of the world that do not have access to adequate energy supplies.

This holds back their economic growth, and also leads to massive waste because people use primitive fuel sources, such as trees. The WEC urges third world countries to institute realistic energy policies, including providing a secure investment environment to attract capital, and allowing energy to trade at free market prices. But it also repeats a call made at its previous meeting in Montreal in 1989 that the energy plight of the third world should be examined by the United Nations.

The environment will make itself felt through pressures to reduce carbon emissions and use energy more efficiently. This could have a profound influence on the structure of the energy sector. Actions – such as taxation – may be taken to check consumption of fossil fuels, and encourage cleaner forms of energy. Policies may be adopted to reduce the energy intensity of production.

This should provide a stimulus to new technologies, and greater reliance on renewable forms of energy.

However the WEC does not expect any radical shift in the pattern of energy sources up to the year 2020. "It would be unwise to plan for any dramatic infrastructural change," it says.

Fossil fuels will continue to dominate the picture, though their share will fall a bit. Coal, for example, will go from a 26 per cent share in 1990 to 24 per cent in 2020 and oil from 32 per cent to 28 per cent. But gas will increase its share from 19 per cent to 21 per cent. This means that other forms of energy – nuclear, hydroelectric and renewables – will rise from 24 per cent to 28 per cent.

But underlying this slow-changing outlook, the WEC urges policies based on the "precautionary principle" – the view that actions need to be taken to encourage diversity of supply in primary energy, and advance the introduction of newer, cleaner technologies. The WEC does not rule out the possibility of some future shock, for example the failure of technology to keep global warmingin check, and the resulting need for a massive and urgent switch away from fossil fuels.

In particular, the WEC espouses the cause of possibly the most controversial form of energy – nuclear.

Its share will rise a bit, from 5 to 6 per cent, the WEC believes, adding: "Nuclear should be supported through rational re-evaluation of public attitudes, demonstrably safe technology and management, effective and truly open international inspection, and new generations of plant which satisfy these criteria."

If energy is likely to be in plentiful supply in the years ahead, this could, of course, be bad news for the energy industry which always hankers after firmer prices. But there are other challenges facing the business, and these are summed up in a six-point conclusion to the draft report. "The need to raise energy efficiency, to introduce new technology and fully exploit existing technology, to broaden the primary energy resource base, to expand R&D in these fields, and to tackle environmental problems provide enormous opportunities for the world's energy industry."

Coffee producers in fresh drive for international pact

By Sarita Kendall in Bogota

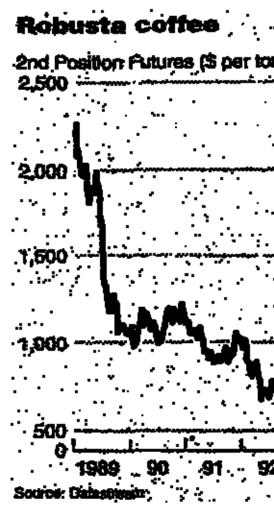
THE WORLD'S coffee producers are going all out to cement the foundation of a new pact at the International Coffee Organisation meeting in London next week.

They are confident that the first steps towards negotiating the pact – a meeting of producers over this weekend – will ensure a united front. But there have been so many obstacles to the establishment of a new pact that even Colombia's coffee authorities are less buoyant than usual.

Since the Bogota meeting in late August, Brazil, Colombia and Costa Rica have been on a diplomatic offensive, particularly to EC countries. President Cesar Gaviria will be in the US this weekend doing his best to push the coffee pact along at the highest levels. Although the US president is clearly more interested in re-election and other matters, producers are encouraged by the political support of several EC heads of state.

But the most reassuring development in recent months from the producer point of view has been Brazil's revived interest in a pact and its active role in suggesting new formulae and options. Brazil, Colombia and Costa Rica have been exploring ways of resolving import controls, one of the main problems created by the proposed universal quota system, which is based on exports by all member countries to all consuming countries.

"The producers are prepared to accept that non-documented coffee enters a country, but only if there are strong disincentive mechanisms," said Mr Diego Pizano of Federacafe, the Colombian coffee growers federation. "The producers will do the maximum to control exports and be very active in this, but we need some collaboration from consumers or the universal quota won't work. We need to discourage fraud."



One possibility is a mechanism by which the importer puts up a substantial guarantee if a coffee shipment arrives without documents of origin. Then there would be a period for verification and the guarantee would be forfeit if no satisfactory documents could be provided.

As far as the few non-member producers are concerned, a very low limit on imports could be set – otherwise leaving the ICO could become a way of escaping quota control.

Mr Gilberto Arango, former head of the private coffee exporters association and a grower himself, is outspokenly sceptical: "The possibility of reaching an agreement is very remote and if that miracle should happen, I don't see the possibility of having one that can operate successfully." He believes that there is not enough political backing for a pact and that world stocks are too large to allow prices to react, even with an agreement.

The main producers are uncharacteristically relaxed about negotiating quotas. "There's agreement on using exports to all destinations over a recent period as the basis for distribution. This reflects both the capacity to supply and the demand, because in the free market, consumers have been able to choose what coffee they buy. There is some fine tuning to do, to define the recent period," said Mr Pizano.

Colombia is the only country that can expect a quota increase regardless of how the "recent period" is defined. Its share of world exports rose rapidly after the collapse of the pact and reached 18 per cent last year. Exports for the 1991-92 coffee year will mark another record at about 15m bags (60 kilos each) and this year's production is forecast at more than 17m bags.

Now the concern of the coffee authorities is to bring production down to a more manageable level of about 15.5m bags. A Colombian plan to eradicate 100,000 hectares of coffee will be extremely difficult and costly to implement, said Mr Arango, who thinks that prices will have to do the work. Colombian coffee growers continue to be sheltered from the full impact of low international prices and the crisis is just beginning to bite deep, with unemployment and violence affecting the coffee zones.

THE prospect of free trade in coffee between Mexico, the fourth largest producer, and Canada, which imports around 2.3m bags a year, has further muddied the waters of next week's ICO negotiations, writes David Blackwell. The agreement between the two countries appears to be enshrined in an annex to the North American Free Trade Agreement (Nafta). Mr Lawrence Eagles, analyst with GNI, the London futures broker, pointed out yesterday that even if consuming countries operated a penalty process for coffee outside a quota system, Mexico would be able to export its full quota to any ICO consumer and send the rest to Canada, which is not in the ICO.

Denmark hands mineral rights to the Faroe Islands

By Hilary Barnes in Copenhagen

THE Danish government has agreed to hand over all rights to exploit minerals in the Faroe Islands and Faroese offshore waters to the Faroese government.

This resolves a dispute between the Danes and the Faroes, which has been one of the main obstacles to exploring for hydrocarbons off the North Atlantic islands, where geologists consider that the chances of finding oil and gas are good.

But a new dispute, this time between Denmark and the UK, is threatening to halt prospecting.

The Faroe Islands are a self-governing province of the Kingdom of Denmark, but foreign and defence policy remain the preserve of the metropolitan government in Copenhagen. The UK and Denmark are in dispute over the territorial demarcation line in offshore areas west of the Shetland Islands and south-east of the Faroe Islands.

According to the Danish foreign minister, Mr Uffe Ellemann-Jensen, the proposed British line of demarcation is too close to the Faroe Islands and is totally unacceptable to Denmark. Denmark claims that the demarcation line should run about halfway between the Faroes and the Shetlands.

Negotiations are taking place between Denmark and the UK, with the next meeting fixed for October 21 in London. If the dispute cannot be resolved by negotiation, the Danes have indicated that they will take it to the International Court at the Hague. Until the dispute is settled, it is thought unlikely that contracts will be awarded to oil and gas companies to begin exploration.

There is a separate dispute over the demarcation line in the north-west Atlantic, where Britain's claim that Rockall should be the pivot of the line is not accepted by either Denmark or Ireland.

NZ kiwifruit hit by European glut

A COLLAPSE of fruit prices in Europe due to a glut of supplies has forced the New Zealand Kiwifruit Marketing Board to cancel further progress payments to orchardists for three months, writes Terry Hall in Wellington.

The board is the sole exporter to markets outside New Zealand and Australia. It said a 50 per cent increase in "lower quality" Chilean kiwifruit and an expected boost in Italian production this season had compounded the problem.

Non-oil prices 'set to rise'

By David Blackwell

NON-OIL COMMODITY prices will rise by 10 per cent over the next 12 months as the world economy slowly improves, according to Goldman Sachs, the US investment bank.

At present supplies are restricted while demand is expected to increase, Mr Ravi Bulchandani, the bank's senior international economist, told a conference on commodities organised by the bank in London yesterday.

This would normally be an explosive mix – but the prospective economic recovery was below par and would not therefore lead to the 20 or 30 per cent price rises usually registered in such circumstances.

Commodity prices are cheap, Mr Bulchandani said. Goldman Sachs' production cost benchmark, designed to identify a floor for commodity prices below which there would be a tendency for supplies to contract, suggests most non-oil commodities are being produced unprofitably, including cotton, aluminium and grains.

WORLD COMMODITIES PRICES

MARKET REPORT

GOLD was fixed at $348.40 a troy ounce in London yesterday afternoon, little changed from the overnight close, after easing back from five-week highs. Dealers said producer selling, fund liquidation and profit-taking prompted by recent gains emerged above the $350 level. But the market was well supported on the dips, comfortably holding $348. Uncertainty and volatility in Europe's currency markets ahead of this weekend's French referendum continues to support gold, while there was talk of Middle East buying in the morning. On the LME some base metals were beginning to respond to factors other than the currency markets. **COPPER** staged a late rally as Comex firmed, **ZINC** received a reminder of impending supply tightness when the cash premium began to widen, while **ALUMINIUM** headed lower after its ample supply situation was brought back into focus by Wednesday's higher than expected CIS export estimates. London **COCOA** stabilised around the day's lows after coming under pressure earlier from profit-taking and a sterling rally. There was talk of a report forecasting a 25,000-tonne deficit for 1992-93.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Oct)		+ or -
Dubai	$18.45-8.55z	-0.05
Brent Blend (dated)	$20.25-0.30	-0.20
Brent Blend (Nov)	$20.40-0.45	-.175
W T I (1 pm est)	$21.85-1.90z	-0.20

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$218-220	
Gas Oil	$190-191	+1.0
Heavy Fuel Oil	$90-92	
Naphtha	$190-191	
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$348.35	-1.15
Silver (per troy oz)♣	381.5c	-4.0
Platinum (per troy oz)	$368.00	+0.25
Palladium (per troy oz)	$92.00	-0.25
Copper (US Producer)	111.5c	
Lead (US Producer)	40.1c	
Tin (Kuala Lumpur market)	16.60r	
Tin (New York)	310.50c	-4.0
Zinc (US Prime Western)	82.0c	
Cattle (live weight)†	109.76p	-0.81*
Sheep (live weight)†♣	70.69p	-0.29*
Pigs (live weight)†	81.45	-0.53*
London daily sugar (raw)	$235.0w	-6.0
London daily sugar (white)	$264.5w	-6.0
Tate and Lyle export price	£240.5	+3.0
Barley (English feed)	£120.0z	
Maize (US No 3 yellow)	£137.0	-12.0
Wheat (US Dark Northern)	Unq	
Rubber (Oct)♥	58.00p	+2.0
Rubber (Nov)♥	65.00p	+2.0
Rubber (KL RSS No 1 Jul)	221.0m	
Coconut oil (Philippines)§	$505.0y	
Palm Oil (Malaysian)§	$390.0z	
Copra (Philippines)§	$320.0	-2.5
Soyabeans (US)	£146.0w	+10.0
Cotton "A" index	56.60	-0.35
Wooltops (64s Super)	395p	+7

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg t-Oct/Dec w-Sep/Oct y-Nov/Dec u-Oct. z-Nov. †Meat Commission average fatstock prices.* change from a week ago ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg ♣Sheep prices are now live weight prices.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Oct	201.80	207.00	204.40 201.60
Dec	202.00	202.00	199.80 199.80
MAR	197.60	199.00	198.60 196.60
White	**Close**	**Previous**	**High/Low**
Dec	258.50	259.00	258.00 257.00
Mar	260.70	261.00	260.50 258.50
May	262.50	262.80	262.30 262.30
Aug	265.00	266.30	265.00 263.50
Oct	254.70	256.20	255.10 253.50
Dec	256.70		255.90
Mar	259.70		256.90

Turnover: Raw 181 (95) lots of 50 tonnes. White 1111 (804) Paris- White (FFr per tonne): Dec 1326.24 Mar 1363.48

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low
Nov	20.50	20.63	20.72 20.45
Dec	20.58	20.63	20.67 20.44
Jan	20.49	20.54	20.57 20.36
Feb	20.27	20.43	20.34 20.27
IPE Index	20.49	20.58	

Turnover 18000 (22000)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low
Oct	189.50	189.75	191.50 189.25
Nov	193.00	193.00	194.50 192.50
Dec	195.25	195.25	196.50 194.50
Jan	195.50	195.00	196.25 194.50
Feb	191.25	191.50	191.50 191.25
Mar	185.75	184.75	186.00 185.25
Apr	181.00	180.50	181.50 180.75
May	178.00	178.00	178.75 178.00

Turnover 10144 (16500) lots of 100 tonnes

FRUIT & VEGETABLES
Apples are an excellent fruit buy this week with French Golden Delicious at 25-30p a lb (29-38p). English Worcesters at 25-35p a lb (35-39p) and English Bramleys at 29-38p a lb (29-38p) Seedless grapes at 60-80p a lb (59-80p) continue to be good. English potatoes at 8-12p a lb (8-12p), carrots at 15-20p a lb (10-18p) and cauliflower at 35-55p each (30-59p) are all great value for money. Iceberg lettuce at 45-60p a head (50-65p), round lettuce at 20-25p each (20-25p) and Webbs at 20-35p each (30-40p) are all good quality. Tomatoes at 40-45p a lb (30-49p), celery at 35-49p a head (38-45p). (Note last weeks prices shown in brackets).

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Sep	325	630	621 615
Dec	642	655	660 636
Mar	671	685	684 667
May	691	705	700 686
Jul	712	723	713 710
Sep	731	742	732 730
Dec	755	772	755 753
Mar	783	803	797 780
May	803	822	806
Jul	823		824

Turnover: 10158 (11562) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Sep 16 786.36 (757.19) 10 day average for Sep 17 790.86 (790.81)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low
Sep	755	757	761 750
Nov	772	772	776 765
Jan	782	785	786 778
Mar	798	797	802 790
May	798	800	800 799
Jul	813	815	810

Turnover 1721 (3332) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Sep 16: Comp. daily 46.22 (45.40) 15 day average 46.24 (46.19)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low
Apr	56.2	54.3	56.4 53.5

Turnover 90 (134) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Oct	128.00	127.50	

Turnover 0 (3) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low
Sep	1055	1068	1060 1055
Oct	1137	1154	1155 1135
Nov	1149	1155	1155 1149
Jan	1190	1190	1190
Apr	1250	1255	1251 1250
Jul	1100		1100
Oct	1285		1285
BFI	1051	1052	

Turnover 884 (88)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low
Sep	114.60		114.60
Nov	116.25	115.70	116.60 116.00
Jan	120.10	119.30	120.30 119.70
Mar	123.10	122.50	123.20 123.10
May	126.50	126.00	126.55 126.50
Barley	**Close**	**Previous**	**High/Low**
Nov	114.10	113.50	115.00 114.00
Jan	118.10	117.50	118.85 118.00
Mar	121.10	120.60	122.00 121.00
May	123.00	122.55	123.50 123.00

Turnover: Wheat 418 (88), Barley 314 (148). Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Sep	104.5		

Turnover 0 (5) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 32,615 lots
Cash	1251.5-2.5	1268-9		1258-7		
3 months	1272-3	1289-90	1282/1269	1276.5-7.0	1268-9	161,153 lots
Copper, Grade A (£ per tonne)						Total daily turnover 28,428 lots
Cash	1357-8	1323-4	1358/1357	1358-9		
3 months	1385-6	1350-1	1415/1377	1385-6	1384-5	154,372 lots
Lead (£ per tonne)						Total daily turnover 5,644 lots
Cash	344-6	342-4	348/347	346.5-7.5		
3 months	356-7	357-8	365.352	358-60	355-6	27,444 lots
Nickel ($ per tonne)						Total daily turnover 5,127 lots
Cash	6935-45	6965-75		6930-5		
3 months	7010-15	7040-5	7025/7000	7005-10	7005-10	28,640 lots
Tin ($ per tonne)						Total daily turnover 1,586 lots
Cash	6730-40	6735-55		6732-7		
3 months	6775-85	6780-800	6795/6770	6780-5	6765-70	11,033 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 10,094 lots
Cash	1371-3	1374-6	1368/1367	1367-8		
3 months	1347-8	1354-5	1361/1344	1346-6.5	1359-60	64,872 lots

LME Closing £/$ rate:
SPOT: 1.7820 3 months: 1.7456 6 months: 1.7180 9 months: 1.6920

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	348.00-348.50	
Opening	352.10-352.50	
Morning fix	350.75	197.940
Afternoon fix	348.40	196.282
Day's high	353.00-353.50	
Day's low	346.50-347.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.37	6 months	2.36
2 months	2.36	12 months	2.41
3 months	2.38		

Silver fix	p/troy oz	US cts equiv
Spot	215.50	382.75
3 months	221.10	385.45
6 months	225.90	388.65
12 months	236.60	395.35

GOLD COINS

	$ price	£ equivalent
Krugerrand	348.00-351.00	202.00-203.00
Maple leaf	358.85-361.15	-
New Sovereign	85.00-86.00	49.00-50.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Oct	Jan	Oct	Jan
1250	17	49	8	18
1300	3	23	41	41
1350	3	9	70	70
Copper (Grade A)	**Calls**		**Puts**	
2350	75	103	4	31
2400	37	73	16	50
2450	14	49	43	75
Coffee	**Nov**	**Jan**	**Nov**	**Jan**
700	77	93	5	11
750	41	59	19	27
800	19	34	47	52
Cocoa	**Dec**	**Mar**	**Dec**	**Mar**
625	37	71	21	25
650	24	56	33	35
675	16	44	50	48
Brent Crude	**Nov**	**Dec**	**Nov**	**Dec**
2000	68		18	28
2050	40	53	34	41
2100	21	37	59	

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Sep	347.9	349.8	0	0
Oct	348.3	350.2	349.4	348.2
Nov	348.9	350.8	0	0
Dec	349.8	351.7	351.1	349.6
Feb	351.2	353.2	352.4	351.3
Apr	352.6	354.6	353.8	352.7
Jun	354.1	356.2	0	0
Aug	355.7	357.9	0	0
Oct	357.4	359.6	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	363.5	367.4	367.5	363.0
Jan	360.8	365.4	366.0	361.0
Apr	359.3	363.9	361.0	360.0
Jul	360.3	364.2	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Sep	376.6	382.1	378.5	377.5
Oct	376.7	382.2	0	0
Nov	377.5	383.0	0	0
Dec	379.2	384.7	384.5	378.0
Jan	380.5	386.0	0	0
Mar	382.9	388.5	388.0	382.0
May	385.4	391.0	387.0	387.0
Jul	387.7	393.3	391.5	387.5
Sep	390.1	395.7	395.0	390.0
Dec	394.1	399.7	398.5	393.5

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	107.45	107.50	108.30	106.95
Oct	107.70	107.75	108.00	107.55
Nov	108.20	108.20	0	0
Dec	108.45	108.40	109.30	107.75
Jan	108.50	108.45	0	0
Feb	108.60	108.45	0	0
Mar	108.56	108.50	109.25	108.00
Apr	108.30	108.25	0	0
May	108.10	108.05	108.60	107.75
Jun	107.85	107.80	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	9.09	9.23	9.15	9.88
Mar	8.91	8.99	8.94	8.85
May	8.94	8.99	8.97	8.89
Jul	8.88	9.00	8.98	8.91
Oct	8.92	9.00	8.93	8.89

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Oct	22.19	22.39	22.36	22.05
Nov	21.94	22.16	22.14	21.80
Dec	21.81	22.03	22.01	21.68
Jan	21.64	21.89	21.86	21.58
Feb	21.53	21.74	21.70	21.42
Mar	21.35	21.59	21.45	21.29
Apr	21.35	21.45	0	0
May	21.00	21.32	0	0
Jun	21.15	21.20	21.10	21.07
Jul	20.90	21.10	21.00	20.90

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Oct	62.20	63.04	63.00	61.50
Nov	63.10	63.94	63.80	62.50
Dec	64.10	64.79	64.60	63.40
Jan	64.25	65.00	64.80	63.75
Feb	63.20	63.96	63.80	62.70
Mar	60.85	61.56	61.35	60.85
Apr	59.00	59.46	59.30	59.00
May	57.70	58.01	57.90	57.60
Jun	57.11	57.11	0	0
Jul	56.75	56.86	56.75	56.75

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	981	1008	995	970
Mar	1035	1058	1046	1025
May	1065	1085	1076	1058
Jul	1090	1123	1105	1090
Sep	1119	1152	1126	1120
Dec	1157	1190	1163	1158
Mar	1199	1227	1200	1195
May	1224	1252	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Sep	52.35	52.00	52.60	52.00
Dec	53.35	53.05	53.65	52.55
Mar	54.70	54.65	55.10	53.75
May	58.60	58.75	58.80	57.50
Jul	59.70	60.55	60.45	58.70
Sep	60.90	61.75	62.20	60.70
Dec	63.75	64.75	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Oct	59.00	58.23	59.50	57.75
Dec	58.85	55.86	56.90	55.60
Mar	57.63	56.65	57.70	56.40
May	58.45	57.50	58.45	57.10
Jul	58.98	57.80	59.00	57.60
Oct	59.45	58.50	58.60	58.60
Dec	58.55	58.60	59.85	58.85
Mar	58.35	59.35	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	113.60	116.50	116.50	112.50
Nov	114.15	114.10	114.40	112.60
Jan	113.70	113.60	114.40	112.70
Mar	114.05	113.75	114.75	113.10
May	115.05	114.60	114.60	114.00
Jul	114.55	114.10	0	0
Sep	114.55	114.10	0	0
Nov	114.55	114.10	0	0
Jan	114.55	114.10	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Sep 17	Sep 16	mnth ago	yr ago
1560.5	1538.7	1521.6	1644.3

DOW JONES (Base: Dec. 31 1974 = 100)

	Sep 16	Sep 15	mnth ago	yr ago
Spot	115.47	118.00	115.86	117.40
Futures	115.82	116.46	115.22	123.64

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Sep	554/6	559/4	561/0	554/2
Nov	545/2	554/4	555/2	545/0
Jan	552/4	562/2	562/6	552/0
Mar	560/6	570/0	570/2	560/4
May	568/4	578/0	578/0	568/4
Jul	574/6	584/4	584/4	574/0
Aug	576/0	585/4	580/4	576/0
Sep	573/0	580/4	576/0	573/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Sep	19.04	19.31	19.40	19.03
Oct	19.06	19.32	19.46	19.05
Dec	19.34	19.53	19.75	19.33
Jan	19.48	19.71	19.82	19.48
Mar	19.73	20.00	20.12	19.73
May	19.96	20.27	20.42	19.96
Jul	20.23	20.50	20.65	20.23
Aug	20.32	20.62	0	0

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Sep	169.0	170.8	169.5	168.5
Oct	186.7	188.7	188.7	186.6
Dec	186.6	188.8	188.8	186.5
Jan	187.2	188.7	188.8	187.0
Mar	187.3	188.6	188.8	187.2
May	187.0	189.0	188.2	187.0
Jul	189.1	189.3	189.5	188.5
Aug	189.8	189.8	190.3	189.7

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Sep	223/2	225/6	227/0	223/0
Dec	217/2	220/4	221/2	217/0
Mar	226/2	229/0	230/2	226/0
May	232/2	235/2	235/6	232/0
Jul	237/2	239/4	240/0	237/0
Sep	237/4	239/6	240/4	237/4
Dec	242/2	243/4	243/0	242/2

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Sep	331/0	327/4	331/6	326/4
Dec	341/6	339/6	344/2	339/6
Mar	346/2	344/6	348/6	344/6
May	340/2	339/2	343/4	339/4
Jul	318/4	317/4	321/0	318/0
Sep	324/0	322/4	0	0
Dec	335/0	332/4	335/0	333/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	75.825	75.425	75.950	75.425
Dec	73.375	73.150	73.550	73.150
Feb	72.300	72.225	72.475	72.275
Apr	73.375	73.300	73.525	73.300
Jun	70.350	70.300	70.475	70.300
Aug	68.975	68.925	69.050	0
Oct	69.000	68.925	69.000	0

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Oct	40.375	40.625	40.750	40.325
Dec	41.300	41.525	41.650	41.250
Feb	40.225	40.225	40.300	40.025
Apr	38.500	38.525	38.675	38.425
Jun	44.150	44.175	44.350	44.150
Jul	44.150	44.225	44.275	44.150
Aug	43.150	43.100	43.150	43.075
Oct	40.500	40.300	40.500	40.325

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	40.575	40.800	41.100	40.500
Mar	40.500	40.500	41.000	40.475
May	42.200	42.000	42.350	41.800
Jul	42.100	42.300	42.425	42.100
Aug	41.150	41.250	0	41.150

Equities soar on interest rate hopes

By Terry Byland, UK Stock Market Editor

LONDON equity dealers sensed yesterday that sterling's effective devaluation and suspension from the ERM may signal a shift in UK government policies in the direction of lower interest rates, and the stock market soared in one of the most heavily traded sessions on record.

The day's surge of 105.6 points on the FT-SE Index represented the largest daily gain since the session which followed re-election of the Conservative government in April this year. The closing level of 2,483.9 returns the Footsie to its position of mid-July.

Overseas institutions, for which the effective 10 per cent sterling devaluation presented golden purchasing opportunities among UK stocks, had telexed their buying lists to London brokers overnight. Domestic institutions soon took up the running as the government's cancellation of Wednesday's two percentage-point rise in base rates turned attention to interest-related stocks. Barclays de Zoete Wedd, the UK investment bank, predicted that base rates could fall to 8 per cent this year.

The final reading on the Footsie was only one point below the day's high, which was recorded within seconds of the official opening. Share prices fell back to show only plus 25.8 on the Footsie in the first hour of trading, but the advance was resumed when base rates were returned to 10 per cent, whetting appetites for further reductions soon.

Account Dealing Dates		
First Dealings:		
Sep 7	Sep 21	Oct 5
Option Declarations:		
Sep 17	Oct 1	Oct 15
Last Dealings:		
Sep 18	Oct 2	Oct 16
Account Day:		
Sep 28	Oct 12	Oct 26

*New time dealings may take place from 8.30 am two business days earlier.

For most of the session the market jousted around a 100-point Footsie rise, with brief periods of profit-taking soon replaced by further institutional demand. At the close, Seaq volume totalled 1.4bn shares, exceeding even that recorded on the day following the UK general election.

Amid the enthusiasm – one well-known dealer called for his famous water-cooled fountain pen – there were a few notes of caution, especially after government bonds began to reflect fears that inflation will be rekindled by lower sterling and interest rates.

At Panmure Gordon, the London broker, Mr Robin Aspinall noted that the Bundesbank, which disappointed some investors by leaving rates unchanged yesterday, might not cut rates for some time.

At BZW, Mr Richard Kersley suggested caution towards some of the domestic interest-related stocks, such as those in the building and contracting sector, which have been unwilling to respond to reductions in domestic interest rates so far this year.

Gains in the overseas earning stocks, including some of the smaller oil issues which have lagged the market, often outpaced the advance of 4.4 per cent in the Footsie.

There were substantial rises in bank shares on the expectation that lower interest rates in the UK will ease some of the crippling burden of bad debts overhanging from the domestic manufacturing, property and building sectors. But there was a reaction from the defensive stocks, including utilities.

This morning brings the expiry, just after 10.00am, of the September contract on the FT-SE Index, an event likely to inspire tumultuous activity in blue chip stocks.

Investors abandon utilities

THE apparent abandonment of the low-inflation economic environment brought an abrupt about turn in sentiment in those sectors regarded as safe havens and, in particular, among the utilities.

The electricity distribution stocks, the water sector, BT and to a lesser extent British Gas, all came under substantial selling pressure from the outset of trading as the market's action funds switched their allegiance to the cyclical stocks.

Opening at 357p, BT shares quickly turned down, touching a low of 332p before settling a net 4 off at 339½p. The partly-paid stock closed 3¼ down at 237½p. Turnover in the two classes of shares was 18m and 7.1m respectively.

British Gas, refecting the stock's underperformance against the other utilities, was treated with kid gloves, the shares edging up 5 to 235½p on 17m traded.

The biggest casualties in the electricity stocks included Norweb, 10 lower at 406p, Midland, 12 off at 390p, and Yorkshire, which declined 16 to 418p: Footsie status sustained Thames Water, only 4 easier at 326p, and Severn Trent, 6 down at 385p, but the smaller water issues such as South West (17 weaker at 396p) and Welsh Water (13 cheaper at 430p) were given a much rougher ride.

Guinness volatile

In a session notable for demand for international stocks, drinks group Guinness, the "classic overseas earner", stood out for its underperformance after reporting interim figures below market estimates and warning of deteriorating markets. Analysts downgraded their forecasts for the full year.

Half-time profits showed a one per cent improvement to £353m but the figure fell short of market expectations of between £359m and £366m, and the company spoke of poor trading conditions in the UK, Japan and Germany.

With the strong demand for internationals a particular feature of yesterday's session, shares in Guinness, which derives around 85 per cent of its earnings from overseas, still suffered an initial retreat of 38 to 491p on the results as dealers moved to unload stock and analysts made their downgrades. Smith New Court was among brokers to cut its forecast and is now predicting profits of £975m for the year, down from its previous estimate of £1.03bn.

The strong market trend, however, brought a rebound in the shares, which reached 560p before profit-taking combined with switching into Grand Metropolitan cut them back to 534p for a rise on the day of 5. Turnover came to 17m shares, the highest daily total for 15 months.

The switching between Guinness and GrandMet, together with demand for overseas earners, saw turnover in the latter rise to 14m as the shares jumped 23 to close at 432p.

The oil and gas sector attracted exceptionally heavy trading. BP saw 31m shares dealt as an initial burst of buying interest, mostly from overseas according to dealers, was offset by a steady stream of big selling orders from UK institutions. Pushed up to 226p within minutes of the opening, BP shares subsequently were driven down and closed the session a mere 1¼ up at 212p.

Shell, on the other hand, was the darling of the big international institutions, with the shares running up 37½ to 525p as 15m were traded.

The latest upsurge in the exploration and production sub-sector saw Lasmo climb 13¼ to 146p on very heavy turnover of 11m and Enterprise add 19 at 384p on 2.9m, reflecting the impact of currencies on crude oil prices which, because of currency shifts, have risen from around £10 a barrel to £12 a barrel in the past couple of weeks.

Burmah Castrol's exceptionally heavy overseas earnings stream – 30 per cent comes directly from the US, to say nothing of substantial income from Germany – saw the shares advance 22 to 613p.

Institutions piled back into the high street banks after the recent interest rate rises were rescinded and the market began to trade on stories that single-figure interest rates are not too far away.

National Westminster and Barclays, which bore the brunt of selling in the sector earlier in the week, spiralled upwards in levels of turnover not seen for many months. The latter shot up 45 to 336p on 28m traded, while NatWest leapt 51 to 357p on 26m.

The expected return to profits underpinned Legal & General, which settled 24 up at 323p. Prudential, where turnover was given a big push by a single trade of 4.9m shares at 246p, closed 6 higher at 245p.

Steep gains in the equity market and hopes of an upturn in the property market drove the composite sector higher. Sun Alliance added 24 at 263p, Commercial Union 14 at 489P, General Accident 38 at 478p and Royal 16 at 142p.

There was no hard evidence to support the latest spurious market rumours that Goldman Sachs, the US investment bank, had taken advantage of the market upsurge to place the remainder of the big block of ICI shares it acquired from Hanson via a bought deal earlier this year. ICI shares finished 38 better at 1105p after turnover of 5.1m.

Reed International's proposed merger with Elsevier was given a warm welcome by the market, which marked Reed shares up 45 to 531p. Volume was 8.8m.

With the focus mainly on internationals, several stocks viewed as over-focused on the UK came under pressure. One such stock was Northern Foods, which was among a handful of FT-SE stocks to buck the market trend. The shares shed 3 to 224p.

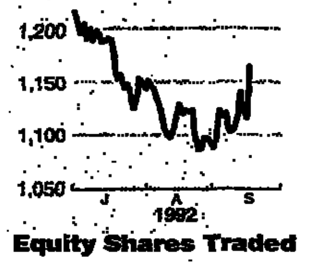
Also relatively weak was Argyll Group, currently hosting a series of broker visits. The shares improved only 3 to 307p.

Investors brushed aside the financial worries that have depressed Queens Moat Houses of late and strong demand left the shares 7½ ahead at 35p.

Hotels group Forte was seen as likely to benefit from a devaluation of sterling and trade in the shares was particularly busy. They rose 21 to 139p as turnover reached 21m.

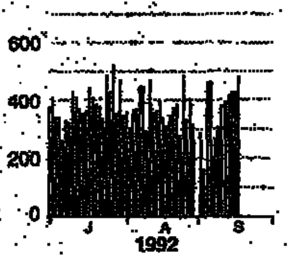
British Steel was particularly busy and recorded the day's highest volume among Footsie stocks at more than 47m. The shares rose 8 to 61p.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



MARKET REPORTERS:
Steve Thompson,
Joel Kibazo.

■ Other market statistics, Page 25

FINANCIAL TIMES STOCK INDICES

	Sept 17	Sept 16	Sept 15	Sept 14	Sept 11	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	89.22	88.55	89.14	90.11	88.83	87.66	90.11 (14/9)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	104.99	105.47	106.34	106.46	105.46	96.80	106 46 (14/9)	97.15 (2/1)	106 35 (6/7/92)	50.53 (3/1/75)
Ordinary Share ●	1815.2	1716.4	1725.7	1775.4	1729 9	2011 3	2149 7 (22/5)	1670.0 (1/9)	2149.7 (22/5/92)	49 4 (26/6/40)
Gold Mines	80.7	74.5	72.5	73.1	68 0	161.6	160.6 (10/1)	65 0 (10/9)	734 7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2483.9	2378.3	2370.0	2422.1	2370.9	2588.7	2737.8 (11/5)	2281.0 (25/8)	2737 8 (11/5/92)	986 9 (23/7/84)
FT-SE Eurotrack 200	1111.40	1098.65	1091.61	1113.61	1078.33	1171.28	1248.79 (11/5)	1029.56 (25/8)	1248 79 (11/5/92)	938 62 (18/1/91)
●Ord. Div. Yield	4.85	5.08	5 17	5.06	5 17	4.74				
●Earning Yld %(full)	7.07	7.41	7.44	7 27	17 02	7.60				
●P/E Ratio(Net)(☆)	17.92	17.10	17.03	17.42	15.79	16.42				
SEAQ Bargns 5.00pm	37,148	22,530	18,988	24,614	18,412	29,209				
Equity Turnover(£m)†	-	1181.0	895.0	971.7	923.9	1446.91				
Equity Bargains†	-	24,014	21,811	27,095	20,914	28,753				
Shares Traded (ml)†	-	488.7	437.3	429.1	418.7	579.8				

Basis 100 Govt. Secs 15/10/26, Fixed Int 1928, Ordinary 1/7/35. Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90 ☆ Nil 16.62.

Ordinary Share Index, Hourly changes — Day's High 1820.3 — Day's Low 1746.9

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1811.1	1761.2	1798.0	1804.4	1815.3	1806 4	1802.8	1814.1	1814.3

FT-SE 100, Hourly changes — Day's High 2487.7 — Day's Low 2404.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2485.1	2430.4	2448.6	2462.6	2479.2	2471.0	2463 9	2479.9	2483.8

FT-SE Eurotrack 200, Hourly changes — Day's High 1134.01 — Day's Low 1105 83

Open	10.30 am	11 am	12 pm	1 pm	2 pm	3 pm
1129.24	1126.72	1125.96	1126.94	1123 87	1112.81	1113.07

GILT EDGED ACTIVITY

Indices*	Sept 16	Sept 15
Gilt Edged Bargains	127.2	99.1
5 – Day average	104.5	97.0

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share Index Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ADT	9	423	+23	Comm. Union	5,100	489	+14	Lonrho	1,300	72	+4	Shell Transport	15,000	527	+29½
ASDA Group	26,000	29	+1	Cookson	1,700	152	+15	Lucas	1,200	99	+3	Siebe	7,800	360	+38
Abbey National	5,200	288	+28	Courtaulds	3,500	446	+37	MB Caradon	3,300	244	+28	Slough Ests.	1,600	101	+13
Albert Fisher	2,800	35½	+3½	Dalgety	163	390	+1	MEPC	2,900	[illegible]	+18	Smith (W.H.) A	1,600	408	+24
Allied-Lyons	6,600	564	+20	De La Rue	1,300	534	+41	Manweb	550	417		Smith & Nephew	8,700	143	+11½
Amstrad	1,100	22½		Dixons	7,200	199	+12	Marks & Spencer	20,000	310	+8	SmKl Beecham	8,100	531	+22
Anglian Water	3,200	408	-9	Eastern Elect.	2,800	350	-4	Midlands Elect	731	380	-12	SmKl Beecham Uts	2,900	474	+14
Argos	2,200	228	+10	East Midland Elect.	1,900	363	-12	NFC	1,500	361	+25	Smiths Inds	627	286	+25
Argyll Group	9,000	307	+3	Eng China Clays	5,800	[illegible]	+44	NatWest Bank	26,000	357	+51	Southern Elect	1,600	370	-1
Arjo Wiggins	16,000	149	+18	Enterprise Oil	2,900	384	+19	National Power	6,800	257	+1½	South Wales Elect	177	445	+4
Ass. Brit. Foods	707	387	+9	Eurotunnel Units	221	389	+17	Next	2,800	92	+1	South West Water	1,900	390	-17
[illegible]				[illegible]				[illegible]				[illegible]			
British Airways	6,600	276	+9	ICI	5,100	1105	+38	[illegible]	1,700	547	+38	Vodafone	5,300	335	+14
British Gas	17,000	235	+4½	Inchcape	2,800	448	+30	Ryl Bk Scotland	4,900	157	+14	Warburg (SG)	1,200	446	+1
British Land	5,300	136	+20	Kingfisher	6,600	486	+30	Royal Insurance	6,700	142	+16	Wellcome	7,200	897	+17
British Steel	47,000	61	+7½	Kwik Save	662	656	+18	Saatchi	760	148	+10	Welsh Water	1,400	430	-13
Bunzl	5,700	91	+5	Ladbroke	11,000	151	+11	Sainsbury	6,700	411	-4	Wessex Water	446	491	-6
Burmah Castrol	2,400	613	+22	Land Securities	3,600	370	+25	Scottish & New	2,400	406	+8	Whitbread 'A'	2,400	457	+38
Burton	14,000	39	+6½	Laporte	2,000	497	+43	Scot. Hydro-Elect	4,000	211½	+½	Williams Hldgs.	4,500	275	+34
Cable & Wire.	5,800	583	+25	Legal & General	3,300	323	+24	Scottish Power	9,000	184½	+1½	Willis Corroon	3,700	177	+17
Cadbury Schweppes	3,300	465	+21	Lloyds Abbey	3,100	331	+24	Sears	13,000	63	+5	Wimpey	5,400	89	+15
Calor Group	233	185	+1	Lloyds Bank	8,600	435	+38	Sedgwick	3,600	131	+8	Wolseley	908	358	+38
Carlton Comms.	3,100	622	+30	LASMO	12,000	146	+13½	Seaboard	433	379		Yorkshire Elect.	1,300	418	-16
Coats Viyella	12,000	193	+29	London Elect.	2,200	378	-1	Severn Trent Water	3,100	385	-6	Yorkshire Water	1,800	456	-7

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

ANOTHER record session yesterday rounded off the life of the September contract on the FT-SE Index, which expires after 10am this morning, writes Terry Byland.

Volume was driven by activity from marketmakers trying to keep ahead of a wildly expanding equity market and by traders seeking to roll-over positions into the December contract, which takes over market leadership today.

Overseas buyers bought early into the London market's stock index futures on the back of the effective 10 per cent devaluation of sterling. The September contract moved above 2,510 twice during the session before closing around 2,483, in line with the underlying index, as required for the contract expiry.

The December contract closed at a premium of 56 over September, with fair value, the calculation allowing for dividend flows and financing costs, estimated at around 42; brokers regarded the level as acceptable.

In view of the excitement in the equity market yesterday, this morning's expiry in stock index futures could prove lively, according to dealers. Traded options were equally lively, recording a total of 69,249 lots, and volume in the FT-SE option reached 27,204.

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS — Thursday September 17 1992

Figures in parentheses show number of stocks per section

	Equity groups & sub-sections	Thursday September 17 1992 (Index No., Day's Change %, Est. Earnings Yield % (Max.), Gross Div. Yield% (Act. at (25%)), Est. P/E Ratio (Net), xd adj. 1992 to date)	Wed Sep 16 Index No.	Tue Sep 15 Index No.	Mon Sep 14 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (175)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2	Building Materials (23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3	Contracting, Construction (27)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4	Electricals (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5	Electronics (27)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6	Engineering-Aerospace (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7	Engineering-General (43)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8	Metals and Metal Forming (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9	Motors (14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10	Other Industrial Materials (19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21	CONSUMER GROUP (191)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22	Brewers and Distillers (25)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25	Food Manufacturing (19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26	Food Retailing (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27	Health and Household (25)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29	Hotels and Leisure (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30	Media (26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31	Packaging, Paper & Printing (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34	Stores (34)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35	Textiles (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40	OTHER GROUPS (117)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41	Business Services (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42	Chemicals (22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43	Conglomerates (10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44	Transport (14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45	Electricity (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46	Telephone Networks (4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47	Water (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48	Miscellaneous (23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49	INDUSTRIAL GROUP (483)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51	Oil & Gas (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59	500 SHARE INDEX (500)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61	FINANCIAL GROUP (83)●	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62	Banks (9)●	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65	Insurance (Life) (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66	Insurance (Composite) (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67	Insurance (Brokers) (10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68	Merchant Banks (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69	Property (30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70	Other Financial (14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71	Investment Trusts (70)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99	ALL-SHARE INDEX (653)●	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	FT-SE 100 SHARE INDEX ♦	2483.9 +105.6	2378.3	2370.0	2422.1	[illegible]

FIXED INTEREST

[illegible]

Opening index 2485.1; 9 am 2430.4; 10 am 2448.6; 11 am 2462.6; Noon 2479.2; 1 pm 2471.0; 2 pm 2463.9; 2.30 pm 2478.1; 3 pm 2479.9; 3.30 pm 2486.7; 4 pm 2483.8. [illegible] FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, 3rd Floor, Number One, Southwark Bridge, London SE1 9HL. ● The HSBC dividend is not subject to Advance Corporation Tax at 25%.

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (93). BRITISH FUNDS (2) Tr. 8¼pc '93, Tr. 9pc '92-96, AMERICANS (15) Allegheny & Westn., Ameritech, Bell Atlantic, BellSouth, CPC, Chrysler, Colgate-Palmolive, Echlin, Gillette, Hasbro, Lockheed, Morris (Ph), NYNEX, Southwestern Bell, Varity, CANADIANS (2) American Barrick, Imperial Oil, BANKS (2) ABN, HSBC, BUSINESS SERVICES (7) Penna, CHEMICALS (2) Engelhard, Hoechst, ELECTRICALS (2) Motorola, Sony, ENGINEERING-GENERAL (1) Siebe, FOOD [illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)							
Treas 8¼pc 1993		99⅞	+½	99⅞	97½	8.30	9.34
10pc 1993‡‡		100¼xd	+⅜	100½	99⅛	9.98	9.50
[illegible]							
Treas 8¾pc 1997‡‡		98½	+2¼	99⅛	94	8.88	9.10
Five to Fifteen Years							
Exch 15pc 1997		121⅝	+2⅞	123⅛	117⅛	12.34	9.53
9¾pc 1998		102⅝	+2	103⅝	97½	9.54	9.20
Treas 6¾pc 1995–98‡‡		92	+1⅛	93⅝	86½	7.34	8.54
15½pc '98‡‡		126⅞xd	+1⅞	129⅝	123⅝	12.22	9.53
Exch 12pc 1998		111⅛	+1⅛	113¼	107½	10.76	9.45
Treas 9½pc 1999‡‡		101⅞	+1½	103¼	97⅝	9.33	9.09
Exch 12¼pc 1999		113¼xd	+1⅝	116⅞	109½	10.83	9.49
Treas 10½pc 1999		105⅛	+1⅝	107⅛	101⅛	9.96	9.35

BRITISH FUNDS - Cont.

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
Conversion 10¼pc 1999		104⅞	+1⅛	106⅞	100⅛	9.81	9.35
9pc 2000‡‡		99⅞	+1⅛	100⅛	94⅞	9.07	9.14
Treas 13pc 2000		118⅛	+1⅛	121⅛	114⅞	10.98	9.58
10pc 2001		104⅛	+⅞	106¼	99⅛	9.80	9.23
14pc '98–01		118⅞	+2⅛	121	115⅞	11.77	9.57
9¾pc 2002		103⅛	+⅛	105⅛	98⅛	9.40	9.15
[illegible]							
7¾pc 2012–15‡‡		87⅛	–¾	97⅛	81⅛	8.82	8.99
Exch 12pc '13–'17		125⅞	–1¾	130⅛	120⅛	9.58	9.23
Treas 8¾pc 2017		96⅛	–1⅝	101⅛	95⅞	8.94	9.04
8¾pc 2017 A ‡‡		38⅛	–1⅝	41⅛	35⅞	9.83	9.05
Undated							
Consols 4pc		43⅞	–⅞	44¾	39⅞	9.26	–
War Loan 3½pc‡‡		38⅛	–⅞	39⅞	35⅛	9.13	–
Conv 3½pc '61 Aft		61⅞xd	–⅛	63¼	59	5.67	–
Treas 3pc '66 Aft		32½xd	–⅛	33⅞	29⅛	9.23	–
Consols 2½pc		27⅝xd	–⅛	28⅛	24⅛	9.05	–
Treas. 2½pc		27⅞xd	–⅛	28⅛	24⅛	9.11	–

BRITISH FUNDS - Cont.

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
Index – Linked	(b)					(1)	(2)
Treas. 2pc '94	(102.9)	126⅞	+1	127⅝	122⅞	3.08	4.74
2pc '96	(67.9)	178½	+1½	184¼	176⅞	4.12	4.84
2½pc '01	(78.3)	142¾xd	+2⅞	148⅞	139⅞	4.51	4.87
2½pc '03	(78.8)	136⅞	+2½	144⅛	135	4.53	4.85
2pc '06	(69.5)	148¼	+2⅞	147⅞	137⅞	4.53	4.77
[illegible]							

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for February 1992: 136.3 and for August 1992: 138.9.

OTHER FIXED INTEREST

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
[illegible]							
B'ham 11½pc 2012		118¼	–⅛	113½	102¼	10.43	10.29
Ireland Cap 8½pc '10		95¼	+2	98¼	88⅛	8.92	–
9pc Cap 1996		97¼	+3¾	98¾	90	9.25	–
13pc '97–02		107	—	115½	103⅞	12.15	–
Hydro Quebec 15pc 2011		137⅞	–⅞	141⅞	130⅞	10.89	10.38
Leeds 13½pc 2006		123¾	–½	126	116¼	10.88	10.33
Liverpool 3½pc Irred		32½	+½	34	30	10.77	–
LCC 3pc '20 Aft		30½	+½	31⅞	27	9.84	–
Manchester 11½pc 2007		108¼	–1¼	111¼	103¼	10.62	10.41
Met. Wtr. 3pc 'B'		66½	—	62	53	4.50	8.85
N'wide Anglia 3⅞pc 2021		106	+2	111¼	103¼	–	5.60
4⅜pc IL 2024		108	+2	118¼	103¼	–	5.31
Utd Mex States 16½pc 2008		124½	+1	126	121½	13.25	12.85

LONDON SHARE SERVICE

AMERICANS

Notes	Price £	+ or -	1992 high	1992 low	Mkt Cap £m	Yld Gr's
Abbott Labs h	18¾xd	+⅝	19¼	14⅝	14,211	1.9
Allegheny & W	[illegible]	+23	[illegible]	226p	176.2	4.6
Amdahl	[illegible]	+3	1158p	527p	[illegible]	1.0
Amer Cyanamid	33½	+1¼	37	28⅝	[illegible]	2.6
Amer Express	12⅝xd	[illegible]	13⅞	10[illegible]	[illegible]	4.2
Amer T & T	24⅞xd	[illegible]	24⅞	20¼	[illegible]	2.8
Ameritech	38¼	+1¼	38¼	32½	16,747	4.8
BankAmerica	25[illegible]xd	+1[illegible]	27¼	19[illegible]	8,715	2.7
Bankers NY	35½xd	+2[illegible]	37¼	28⅞	2,942	3.7
Bell Atlantic	27	+1¼	27	23¼	11,629	5.0
BellSouth	32⅞	+5	32⅞	25	16,872	4.4
Bethlehem Steel	6⅞xd	+⅛	9⅝	5¼	[illegible]	–
Bowater	1136pxd	+63	1579p	905p	488.5	5.6
CPC h	28xd	+1⅞	28	22⅞	4,241	2.2
Cadiz Land Inc	128p	—	342p	128p	–	–
Campbell Soup	21[illegible]xd	+1[illegible]	23[illegible]	17⅞	5,444	1.9
Chase Manhattan	12¼xd	+½	18½	9⅛	1,819	4.9
Chrysler	12xd	+½	12	8¼	3,588	2.8
Citicorp	8[illegible]xd	+⅜	11¼	5⅞	3,136	–
Colgate-Palm	31⅞xd	+1½	31⅞	25¼	5,884	2.1
Cont'l Bank	529p	+54	1030p	499p	940.9	3.3
Dana	22½xd	[illegible]	24½	14[illegible]	1,031	3.7
Data General	688p	+32	1004p	384p	181.7	–
Decora Inds	116p	—	122p	68p	–	–
Dun & Brad	32⅛	+1⅝	33½	27⅞	5,731	3.7
Eaton	45	+2¼	46½	32½	1,653	2.6
Echlin	11[illegible]xd	[illegible]	11[illegible]	7⅜	643.4	3.3
FPL	20xd	+1	20	17[illegible]	3,812	6.4
Fluor	24⅛	+⅞	27	19¼	1,958	0.9
Ford Motor	23¼xd	+⅞	25⅜	15	11,288	2.3
Gen Elect	49[illegible]xd	+2[illegible]	46¼	36¼	37,596	2.8
General Host	530p	+13	565p	360p	–	3.5
Gillette	32xd	+1[illegible]	32	23[illegible]	7,020	1.2
Hasbro	19¼	+⅝	19¼	12⅞	1,658	0.5
Honeywell	37⅛	+1⅛	43	32	2,882	2.3
Houston Inds	25	+1	25	22	3,237	6.3
IBM	46⅜xd	+1	54½	42⅞	26,681	5.4
Ingersoll-Rand	16	[illegible]	19[illegible]	12[illegible]	1,659	2.3
Lockheed	27	+1	27	22⅞	1,056	4.1
Lowe's h	975p	+60	1273p	815½p	711.8	1.5
Merrill Lynch	28¼xd	+1⅛	39[illegible]	24⅞	3,025	2.1
Morgan (JP)	34¼xd	+1¼	37½	28[illegible]	6,495	3.3
Morris (Philip)	47⅝xd	+2½	47⅝	37[illegible]	43,807	1.9
NYNEX	46⅛	+1⅝	46⅛	38⅝	9,494	5.3
Pall	16⅝	+1¼	17[illegible]	10[illegible]	1,436	1.2
Pennzoil	39⅝xd	+2	39⅞	23¼	1,243	5.1
Quaker Oats	35⅞xd	+1⅝	40[illegible]	28	2,662	2.8
Rockwell	14⅝xd	+⅝	15[illegible]	11½	3,258	3.3
Rep NY	23xd	+1	26[illegible]	20⅞	1,196	2.3
Sears, Roebuck	23½xd	+1	23	19[illegible]	7,978	4.5
Sthwestern Bell	38⅞	+1½	38⅞	31⅞	11,088	4.1

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MEDIA - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

Greenwich Res.	3	—	11	3	2.21	—	
Hemlo Gold C$	24½	—	C$13	£3¾	433.8	1.9	
Livernia West I£	48	—	53	32	28.1	—	
Kalls Minis I£	16	—	42	14	8.43	—	
Karawara	3½	—	6½	2¼	3.38	—	
Malinga Res.	17	+1½	48	12	1.88	—	
Navan Res I£	24	—	26	16	3.22	—	
North West Expl A$	3	—	6	2	1.81	—	
Oryx Gold	83½	+6½	188	51	—	—	
Plateau	3½	—	13	3	1.37	—	
RTZ	596	+25	689	469	5,977	4.4	
Vizcaya	1¾	—	3	1	0.84	—	
Western & Pac C$	15	−1½	66	7	8.23	—	

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. r Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v Not subject to ACT. z Dividend yield includes a special payment. E Auction basis. F Yield based on prospectus or other official estimates for 1990-91. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1991. K Yield based on prospectus or other official estimates for 1992-93. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1991-92. N Yield based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1991. R Forecast annualised yield, p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

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AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Grofund American	5	125.0	126.3	132.9	+7.20	0.00
AIB Grofund Equity	5	169.4	171.7	181.7	+7.80	2.32
AIB Grofund Euro ♦	5	132.8	134.9xd	142.0	+6.80	0.80
AIB Grofund Gilt	3	69.97	70.00xd	72.16	+0.45	6.47
AIB Grofund Japan	5	110.0	111.3	117.2	+6.30	0.00

AXA Equity & Law Unit Tst Mngrs (1200)F
Equity & Law Hse, Corporation St, Coventry 0203 553231

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
General Inc	5	341.4	344.0xd	366.0	+23.5	3.39
General Acc	5	371.8	374.6xd	398.6	+25.6	3.39
UK Growth Acc	6	251.1	255.7	272.1	+18.1	3.76
UK Growth Inc	6	183.0	186.4	198.3	+13.2	3.76
Higher Inc Acc	6	415.6	424.3	451.4	+26.2	5.24
Higher Inc Inc	6	262.2	267.7	284.8	+16.6	5.24
Gilts/Fxd Int Acc	5½	155.0	155.7xd	163.9	+3.4	8.30
Gilts/Fxd Int Inc	5½	83.49	83.87xd	88.29	+1.82	8.30
Nth America	6	190.7	195.0	207.5	+8.5	0.00
Far East	6	199.1	199.1	211.8	+9.0	0.57
Europe	6	186.2	187.1xd	199.1	+8.8	0.72
Brit Excell	6	51.23	51.23	54.50	+4.08	4.03
Brit Fndmtls Acc	6	64.58	64.58xd	68.71	+2.9	6.99
Brit Fndmtls Inc	6	50.69	50.69xd	53.93	+2.28	6.59
Global Opps	6	51.12	51.63	54.93	+2.56	0.42

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
Gilts & Fixed Int	6	118.5	118.5xd	125.7	-0.1	8.23
High Inc Equity	6	111.8	114.4	121.7	+3.4	6.98
Worldwide Bond	6	230.1	230.1xd	243.8	+12.6	5.84
Capital Growth						
American Growth	6	207.0	207.0	221.1	+12.9	1.01
Asian Pacific	6	146.4	150.0	159.5	+9.0	1.35
Assets & Earnings	6	168.9	168.9	180.6	+6.2	3.65
Capital Reserve Acc	0	118.9	118.9	118.9	+1.1	7.55
Capital Reserve Inc	0	87.91	87.91	87.96	+0.80	7.55
Comdty & Energy	6	64.82	64.82	69.32	+4.74	1.08
1992 Enterprise	6	63.43	63.43	67.83	+2.07	2.92
Euro Capital Acc	6	91.42	91.42	97.77	+4.49	1.07
Euro Capital Inc	6	86.63	86.63	92.65	+4.26	1.08
General	6	153.1	153.1xd	163.7	+6.6	3.54
Japan	6	76.88	76.88	82.22	+4.09	-
Mastertrust	6	85.47	85.47	91.41	+3.78	2.34

Brown Shipley & Co Ltd (1000)F
9-17 Perrymount Rd Haywards Hth 0444 412262

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Mngd P'folio Inc	6	67.52	67.52	71.91	+2.51	2.89
Mngd P'folio Acc	6	126.4	126.4	134.6	+4.70	-
UK General	6	111.6	111.6	118.9	+2.80	4.26
Conv & General	6	14.07	14.07xd	14.98	+0.12	10.38
European Inc	6	19.16	19.16xd	20.68	+0.79	0.55
European Acc	6	19.68	19.68	21.24	+0.81	-
Financial	6	78.45	78.45xd	83.55	+2.18	5.32
Foundation	6	53.52	55.35xd	58.95	+1.02	4.76
German	6	35.00	35.00	37.52	+1.54	0.11
Growth Inc	5	23.63	23.63	25.12	+0.93	3.69
Growth Acc	5	27.27	27.27	29.00	+1.07	-
High Income	6	52.54	53.31xd	57.04	+0.91	8.24
Income	6	92.83	94.77	101.4	+4.80	5.72
Intl Income	6	73.51	73.51	78.29	+3.02	6.16
Intl Growth ♣	6	25.39	25.39	27.04	+1.25	0.29
Monthly Income	6	48.97	50.97	54.28	+0.68	6.21
North American	6	77.76	77.76	82.81	+4.39	0.26
Orient ♣	6	78.28	78.28	84.27	+3.51	-
Recovery	6	23.66	23.66	25.32	+0.26	4.66
Smaller Cos Acc	6	175.9	175.9	187.3	-0.60	-
Smaller Cos Inc	6	104.5	104.5	111.3	-0.30	2.07

Brycourt Unit Tst Mgmt Ltd (1400)F
Nesbeth Hse, Portman Sq W1H 0JR 071-935 6382

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income Growth	1	167.2	167.2	172.0		6.74

Buckmaster Mangmt Co Ltd (1200)H
15 St Botolph Street, London EC3A 7JJ 071-247 4542

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Fellowship Tst ♥	5¼	43.95	43.95	46.59	-0.71	3.60
(Accum Units) ♥	5¼	49.00	49.00	51.94	+0.12	3.60
Income	5¼	163.1	165.4	176.0	+7.6	5.34
(Accum Units)	5¼	362.1	367.4	390.9	+17.0	5.34
Smaller Co's	5¼	85.11	85.11	90.22	+1.06	3.33
(Accum Units)	5¼	100.14	100.14	106.1	+1.2	3.33
Int Portfolio ♥	3	52.07	52.07xd	53.89	+2.5	3.42
(Accum Units) ♥	3	58.33	58.33	60.37	+2.8	3.42
High Income Port ♦	3	46.14	46.90	48.60	+2.27	6.14

Burrage Unit Tst Mangmt Ltd (0905)F
117 Fenchurch St, London EC3M 5AL 071-480 7216

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Short Dated Gilt	1¼	63.37	63.37	64.23	+0.38	7.29

For CCL Unit Trusts see Century Unit Trusts

CIS Unit Managers Ltd (1000)F
PO Box 105, Manchester M60 0AH 061 837 5060

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Environ	6	103.7	106.0	112.8	+2.1	2.33
UK Growth	6	111.9	113.6xd	120.9	+5.1	2.95
UK Income	6	94.74	96.16	102.3	+2.56	5.99

For CS Fund Mngrs see City Financial UT

St George's Way, Stevenage Dealings 071-256 5858

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Growth Units	5¼	127.6	128.7xd	137.6	+6.8	3.92
Gilt & Fxd Int	5	156.5	156.5	165.7	....	8.01
Intl Growth	5¼	138.6	138.6	148.8	+6.6	0.51
North American ♥	5¼	108.2	108.2xd	116.2	+5.1	0.51
Far East	5¼	127.6	127.6	138.0	+6.7	0.84
UK Smaller Cos	5¼	89.99	93.43	99.92	+1.67	3.00
European	5¼	53.08	53.08	56.69	+2.43	0.67
Japanese Growth	5¼	27.74	27.74	29.61	+1.19	0.00
Managed P'folio	5¼	48.53	48.53	52.01	+2.60	2.09
High Income	5¼	127.3	128.2	137.1	+7.6	6.21

Marks & Spencer Unit Trust Ltd (1200)F
PO Box 410, Chester X, CH99 9QG 0244 680066

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
M & S Inc P'folio	5½	108.6	108.9	116.4	+5.2	3.19
Do Accum	5½	119.5	119.7	128.0	+6.1	3.19
UK Sel P'folio	5½	85.81	86.63	92.65	+5.49	5.08
Do Accum	5½	94.36	95.19	101.8	+5.95	5.08

National Provident Inv Mgrs Ltd (1400)H
48 Gracechurch St, EC3P 3HH 071-623 4200

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
NPI American Acc ♥	5½	78.60	78.95	84.44	+4.25	0.14
NPI America Dist ♥	5½	72.74	73.07	78.15	+3.94	0.14
NPI European Acc	5½	67.62	67.98	72.71	+3.31	0.19
NPI European Dist	5½	65.62	65.96	70.55	+3.20	0.19
NPI Far East Acc ♥	5½	98.46	99.18	106.08	+5.29	0.21
NPI Far East Dist ♥	5½	96.9	97.6xd	104.3	+5.20	0.21
NPI Global Dist	5½	49.41	49.74	53.20	+1.34	2.26
NPI O'seas Acc	5½	867.1	870.0	930.5	+19.4	0.86
NPI O'seas Dist	5½	668.3	670.5xd	717.1	+19.2	0.86
NPI UK Acc	5½	476.3	479.7	513.1	+18.1	3.67
NPI UK Dist	5½	254.7	256.5	274.3	+13.2	3.67
NPI Extra Inc Dist	5½	49.95	50.42xd	53.92	+2.35	5.60
NPI Uk Spec Opp Acc	5½	51.85	52.60	56.34	+2.97	3.40
NPI W'wide Acc	5½	69.05	71.27	76.22	+2.60	0.00
NPI W'wide Dist	5½	66.16	68.27	73.02	+2.48	0.00
NPI W'wide Inc Dist	5½	46.15	47.23	50.51	+1.84	2.79

Guide to pricing of Authorised Unit Trusts
Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often well above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

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INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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Pearl Assurance (Unit Funds) Ltd
Lynch Wood, Peterborough PE2 6FY 0733 470470

	Bid Price	Offer Price	+ or −	Yield Gross
Property Dist. (Gross)	135 3	142 4		–
Property Acc. (Gross)	257 7	271 3	+0 1	–
Equity (Gross)	821 8	865 0	+35.9	–
Managed (Gross)	589 3	620 4	+17.3	–
Property Acc. (Net)	123 2	129 7		–
Equity (Net)	191 6	201.7	+7.6	–
Adventurous Managed	87 1	91 7	–1.9	–
Managed (Net)	182.2	191 8	+4 8	–
Cautious Managed	96 2	101.3	–1.3	–
International (Net)	164.3	173 0	+7 8	–
Gilt & Fixed Interest	142 1	149 6	–0.2	–
Money Fund	141.8	149.3	.....	–
Mixed Fund (Cap)	108 8	114 6	.....	–
Mixed Fund (Acc)	113 7	119 7	.	–
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	641 2	675 0	+24 8	–
Ret Man (Series 2)	217 4	228 9	+8 4	–
Ret Cash	201 1	211 7	+0.1	–
Pens Mixed Fd (Cap)	120 1	126 5	...	–
Pens Mixed Fd (Acc)	125 5	132.2	..	–
Pens Stlg Fd (Cap)	104 8	110 4	.	–
Pens Stlg Fd (Acc)	109 5	115 3	..	–

Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	+ or −	Yield Gross
American	131 0	138 0	+4 0	–
Building Soc. Fd.	225 0	237 0		–
Balanced	246 0	259 0	+6.0	–
European	213.0	225 0	+11 0	–
GT Managed	180 0	190 0	+6.0	–
Gartmore Mngd	120 0	127 0	+1.0	–
German	129 0	136 0	+5 0	–
Gilt	161 0	170 0	+1 0	–
Global	35.0	37 0	+1 0	–
International Equity	187 0	197 0	+8.0	–
Japan	159 0	168 0	+8 0	–
Leisure	48 0	51.0	+1 0	–
Managed	38.0	40 0	+1 0	–
Property	286.0	302 0	..	–
UK Equity	216 0	228 0	+5 0	–
Pension Funds				
American	250.0	264 0	+7 0	–
Building Soc. Fd	244 0	257 0	+1.0	–
Balanced	209 0	220 0	+4.0	–
European	238 0	251.0	+12.0	–
German	128 0	135.0	+4 0	–
Gilt	158 0	167.0	+1 0	–
Global	35.0	37 0	+2.0	–
International Equity	169 0	178.0	+6 0	–
Japan	91 0	96.0	+4.0	–
Managed	49 0	52 0	+2.0	–
Property	221.0	233 0	.....	–
UK Equity	225 0	237 0	+6.0	–

Professional Life Assurance Co Ltd (z)
Skandia Hse, Portland Terr, Southampton 0703 232323

	Bid Price	Offer Price	+ or −	Yield Gross
BZW/BI Managed		114 7	...	–
Fidelity Managed		97.2	...	–
Hill Samuel Managed		115.9	..	–
Morgan Grenfell Managed		111 8	..	–
PDFM Managed		120 3	.....	–
Schroder Managed		116.3		–
Professional Managed		113.5	.	–
European Equity		81 5		–
Fixed Interest		152.8	.	–
International Equity		129 1	.	–
Pacific Equity		84.6		–
UK Equity		120 9	..	–
US Equity		119 5	.	–
European Index		86.3	..	–
International Index		93 5	...	–
Japanese Index		72.6	...	–
South East Asia Index		113 4	.....	–
UK Index		118 6	...	–
US Index		120 0	...	–
Property		102.4	...	–
Sterling Deposit		133 5	–	–
Retirement Annuity	85 9	91.2	..	–
Retirement Ann Cash	116 8	122.9	.	–

Prolific Life & Pensions Ltd
Stramongate Kendal Cumbria LA9 4UB 0539 733733
Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or −	Yield Gross
Life Funds				
Balanced Gwth Mngd	552 4	587 7	+16 7	–
Adventurous Mngd	129.0	137.3	+6 4	–
Cautious Mngd	108.3	115 3	+1 8	–
Cash Fd	309 7	326.4	..	–
Property Fund	215 4	229.2		–

Prudential Corporate Pension Funds
1 Stephen St, London W1P 2AP 071-548 3281

	Bid Price	Offer Price	+ or −	Yield Gross
Prudential Managed Funds				
Discretionary Sep 16	£176.30	181.88	+3.37	–
Equity Sep 16	£197 03	203.80	+1 43	–
International Sep 16	£26 76	27 49	+1.79	–
Intl Bond Sep 16	£14 79	14 98	+0.79	–
Fixed Int Sep 16	£106.41	107 62	+0 65	–
Index Linked Sep 16	£73 64	74 37	–0.30	–
Property Sep 16	£109 79	115.85	–0 58	–
Cash Sep 16	£31.4400	31 4400	+0.0586	–
Pre-Linked Retirement Plan				
Managed Sep 15	415 6	433 0	....	–
Cash Sep 15	288.3	300 5	..	–
Prudential Pensions Investment Account				
Pens Mixed Sep 18	172.5	189.0	+1.5	–
Pens UK Eq Sep 18	304 0	327.8	+9.59	–
Pens Intl Sep 15	199 6	214 0	+0.8	–
Pens Global Eqty Sep 15	97 8	103.0	+0 9	–
Pens Fixed Sep 18	244 4	257 9	+1.1	–
Pens Index Lk Sep 18	193 0	203 9	+2.8	–
Pens Property Sep 18	88.8	93 5	–0 4	–
Pens Cash Sep 18	188 4	198 5	+0.1	–
Money Purchase Plan				
Discretionary Sep 16	94.4	101.3	–0 2	–
Equity Sep 16	95.5	102 7	–0 8	–
International Sep 16	86 9	92.8	+1.2	–
Global Equity Sep 16	92.9	99 7	–0.2	–
Intl Bond Sep 16	101 6	106 9	+1 8	–
Fixed Interest Sep 16	112.1	117.9	+0.2	–
Index Linked Sep 16	99 0	104.3	–0.5	–
Property Sep 16	99.1	108 7	–0 6	–
Cash Sep 16	107 3	112.7	..	–

Prudential Individual Life Funds
1 Stephen St, London W1P 2AP 071-548 3287

	Bid Price	Offer Price	+ or −	Yield Gross
Series I Life Funds				
Managed	568.5	598.5	+19.3	–
Equity	1139 8	1199 8	+43 2	–
Fixed Interest	493 9	519 9	+1 9	–
Property	391 3	411 9		–
Cash	349 9	368 4	+0 1	–
International	402 4	423.6	+21.9	–
Series II Life Funds				
Managed	549 6	578.6	+18.7	–
Equity	1098 9	1156 8	+41 7	–
International	389 1	409 6	+21.2	–
Fixed Intl.	474.5	499.5	+1 8	–
Property	376.1	395 9	+0.1	–
Cash	336 7	354.5	+0.1	–
Pacific Basin	195 1	205.4	+9.9	–
North American	155 5	163 7	+9.3	–
European	183.0	192.7	+9.2	–
Holborn Balanced Gwth	111.0	116.9	+4 8	–
Holborn Strategic Gwth	112.8	118 8	+4.5	–

Prudential Individual Pension Funds
1 Stephen St, London W1P 2AP 071-548 3287

	Bid Price	Offer Price	+ or −	Yield Gross
Managed	585 4	616.3	+25.7	–
Equity	814 8	857.7	+39 3	–
Global Equity	237.6	250.2	+12 5	–
Fixed Interest	570.2	600.3	+0.1	–
Property	379 6	399 6	– –	–
Cash	230 1	242.3		–
Index Linked Gilt	233.2	245.5	+1.7	–
Guaranteed	10 00		..	–
International Money	265 1	279.1	+11.2	–
North American	85 4	89 9	+5.6	–
Japanese	103 7	109.2	+5 8	–
European	102 6	108 1	+5 0	–
Special Situations	105 2	110 8	+5.0	–
Global Growth	91 1	95.9	+4 7	–
Smaller Companies	99 1	104 4	+0.5	–
International Small Cos.	126 0	132.7	+5 8	–

Reliance Mutual
Reliance House, Tunbridge Wells, Kent 0892 510033

	Bid Price	Offer Price	+ or −	Yield Gross
Deposit Acc Fd	164.7	173 4		–
Equity Acc Fd	344.5	362.7	+13 2	–
Managed Acc Fd.	302.9	318.9	+10 2	–
Prop Fd (1st Issue)	–	547 5	....	–
Prop Acc Fd (2nd Iss)	114 9	121 0	+1 9	–
Unit Trust Mz. Fd	127 9	134 7	+6 8	–
RL Pension Funds				
Deposit Acc.	237 6	250.1	...	–
Equity Acc.	245.1	258 1	+12.4	–
Fixed Int Acc.	226 7	238.7	+4 7	–
Gilt Indx Lnk Acc.	163 4	172.1	+3 0	–
Managed Acc.	322.3	339.3	+11.0	–

J Rothschild Assurance PLC
J Rothschild House, Dollar Street, Cirencester
Telephone. 0285 640302 Helpline: 041.307 6500
Life Funds

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or −	Yield Gr's
Gartmore Fund Managers (IoM)						
PO Box 32, Douglas, IoM 0624 627610						
Intl Grth	5¼	492.0	492.0	527.8	+23.5	0.9
Leopold Joseph Fund Mngrs (IoM) Ltd						
PO Box 52 Athol St Douglas IoM 0624 661020						
LJ International	5¼	85.18	85.18	91.44	+4.24	−
Mercury Fund Managers IoM Ltd						
11 Hill Street, Douglas IoM 0624 662255						
Merc Intl Fund	5	99.02	99.02	105.7	+3.80	6.4
Merc Intl Bond	5	54.16	54.16	56.92	+1.88	8.0
Sun Life Management (IoM) Ltd						
PO Box 178, Douglas, IoM 0624 622444						
Secure High Income	5	1.0334	1.0334	1.1078	+0.0716	12
Unibank Scandinavian Fund Ltd						
19-21, Circular Rd, Douglas, IoM 0624 629420						
Scandinavia Fd	5	−	115.91	123.49		1.0

ISLE OF MAN (REGULATED)(**)

	Bid Price	Offer Price	+ or −	Yield Gross
ATC Fund Management (SG) Ltd				
SG International	$10.69			−
SG Sterling International	£10.06		+0.01	−
AXA Equity & Law Intl Fund Mgs				
European Equity	142.32	149.79	−2.56	−
Far Eastern Equity	$2.1853	2.3000	−0.0603	−
North Amer Equity	$1.7058	1.7953	−0.0300	−
UK Equity	145.12	152.73	−5.80	−
Global Equity	104.56	110.04	−1.79	−
UK Gilt & Fxd Int	99.10	104.30	−1.20	−
Dollar Deposit	$0.9811		+0.0001	−
Sterling Deposit	£101.19		+0.02	−
Managed Currency	96.12	101.16	+2.36	−

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or −	Yield Gr's
Equitilink International Mngt Ltd						
First Aust Prime Inc Inv Co Ltd NAV Sep 10 C$12.58xd						
First Aust Prime Inc Inv Co Ltd NAV Sep 10 US$10.32xd						
NAV Diluted to reflect exercise of all Wrrts C$12.39xd US$10.17xd						
Fidelity Investment (CI) Ltd						
Sterling American			£2.508	2.650	−0.013	−
Fleming Group						
Robert Fleming Management (Jersey) Ltd						
Czechoslovakia Inv Coy Inc			$9.46		....	−
Deutschland Inv Co NAV			DM16.53		....	−
Foreign & Colonial Mngt (Jersey) Ltd						
Hypo Foreign & Colonial Reserve Asset Fd Ltd						
US$ Cash			$18.833		+0.003	−
Sterling Cash			£12.240		−0.026	−
US$ Bonds			$15.994		+0.006	−
Multicurrency Bonds			$20.779		−0.200	−
Sterling Bonds			£13.391		−0.034	−
D Mark Bonds			DM10.917		+0.047	−
Ecu Bonds			Ecu11.687		+0.097	−
UK Equities			£9.776		+0.061	−
US Equities			$16.771		−0.122	−
Japanese Equities			Y616.8		−0.137	−
Contl Euro Equities			DM15.816		−0.094	−
UK Negative Equities			£13.805		−0.063	−
US Negative Eq			$9.983		+0.075	−
Japanese Negative Eq			Y1041.7		+7.4	−
Cont Eur Negative Eqs			DM−		....	−
UK Geared Equities			£9.858		+0.001	−
US Geared Equities			$−		....	−
Japanese Geared Eqs			Y2050.1		−58.3	−
Contl Euro Geared Eqs			DM10.623		−0.151	−
Gold			$10.483		+0.098	−
Protected Capital Plus			−			
John Govett Management (Jersey) Ltd						
Gilbert's Emer Co NAV Sep 17			$10.01		....	−
Sumi Scala Fd NAV Sep 11			$7.87		....	−
Paragon Fd NAV Aug 28			$10.89		....	−

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Continuing turbulence

The foreign exchange market remained turbulent yesterday, as sterling slid further and tensions continued within what remains of the European exchange rate mechanism, *writes Tracy Corrigan.*

However, dealers said the market was calmer than on Wednesday, as traders tried to take stock.

Following its suspension from the ERM late Wednesday, sterling slid in early trading, on the news that the lira had also been suspended. The pound fell to around DM2.60 - around 17 pfennings below its minimum level in the ERM, abandoned the previous evening.

However, the reversal of Wednesday's two point rise in the minimum lending rate, which would bring the base rate back to 10 per cent, helped lift sterling somewhat.

"There was a feeling that, with rates lower, the UK economy could start to improve, and that helped renew confidence in the currency," one trader said.

Sterling rallied somewhat against the D-mark, reaching as high as DM2.68.

However, uncertainty over the future economic policy of the government continued to undermine sterling. A statement from the Treasury that the pound would rejoin the ERM as soon as market conditions permitted unsettled the pound, which fell back again.

"The worry is that we will rejoin the ERM rather than consider another policy, and more particularly, that we might go in at current levels," one trader said.

Meanwhile, the failure of the Bundesbank to lower interest rates, as some dealers had expected, boosted the D-mark against the dollar. The dollar closed at DM1.5185, up from the previous close of DM1.4830. Meanwhile, there were continued tensions within the ERM.

As the French franc began to come under some selling pressure, Mr Michael Sapin, the French finance minister, said the French currency was holding up well in the current turmoil.

He said there was nothing particularly significant about a level of DM3.42 francs per mark, the level at which the currency closed last night. But it was near enough to its DM3.43 floor for dealers to remain nervous.

"Three forty-two is a threshold which has nothing mythical about it, the franc has held up well," said Mr Sapin.

However, the pressure on the franc could prove more short-lived. "If there is a yes vote I think we'll see a sharp rebound in the franc," said Mr Gerard Lyons, chief economist at DKB.

The Irish punt came under severe pressure yesterday, as the Irish central bank and the Bundesbank both intervened.

The Lira was buffetted in the foreign exchange market, ending at DM829.2, from DM823.6. Prior to its suspension, the floor for the lira was DM820.6.

£ IN NEW YORK

Sep 17	Latest	Previous Close
£ Spot	1.7790-1.7800	1.7845-1.7865
1 month	1.30-1.00pm	1.85-1.35pm
3 months	3.10-2.80pm	3.60-3.40pm
12 months	9.90-8.90pm	12.0-11.6pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Sep.17	Previous
8.30 am	86.3	90.7
9.00 am	86.3	90.7
10.00 am	87.4	90.9
11.00 am	87.5	90.8
Noon	87.0	90.6
1.00 pm	86.8	90.5
2.00 pm	86.7	90.6
3.00 pm	86.5	90.4
4.00 pm	86.4	90.5

CURRENCY MOVEMENTS

Sep 17	Bank of England Index	Morgan** Guaranty Changes %
Sterling	86.4	-22.7
U.S Dollar	61.5	-16.3
Canadian Dollar	97.0	-4.7
Austrian Schilling	113.4	+13.8
Belgian Franc	114.6	-0.3
Danish Krone	112.8	+5.7
D-Mark	124.1	+28.4
Swiss Franc	115.2	+22.9
Dutch Guilder	118.5	+18.4
French Franc	[illegible]	[illegible]
Lira	[illegible]	[illegible]
Yen	[illegible]	[illegible]
Peseta	[illegible]	[illegible]

[illegible]

CURRENCY RATES

[illegible]

OTHER CURRENCIES

Sep 17	£	$
Argentina	[illegible]	[illegible]
Australia	[illegible]	[illegible]
Brazil	10195.0 - 10202.0	5757.00 - 5757.20
Finland	8.2325 - 8.2375	4.6200 - 4.6220
Greece	326.050 - 332.400	188.590 - 191.610
Hong Kong	13.6775 - 13.7250	7.7295 - 7.7305
Iran	2716.00*	1435.00*
Korea(Sth)	1375.50 - 1397.70	781.40 - 787.60
Kuwait	0.52200 - 0.52400	0.29500 - 0.29600
Luxembourg	54.35 - 54.45	30.50 - 30.60
Malaysia	4.4340 - 4.4640	2.5110 - 2.5120
Mexico	5313.60 - 5325.45	3094.00 - 3095.00
N Zealand	3.2470 - 3.2510	1.8315 - 1.8335
Saudi Ar	6.5055 - 6.5825	3.7495 - 3.7505
Singapore	2.8370 - 2.8535	1.5995 - 1.6005
S Af (Cm)	5.0355 - 5.0630	2.8310 - 2.8360
S Af (Fn)	7.0080 - 7.0485	3.9525 - 3.9755
Taiwan	44.75 - 44.95	25.25 - 25.35
U.A.E.	6.3700 - 6.4470	3.6715 - 3.6735

*Floating rate Iran Official rate £119.55 $63.30

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Sep 17	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Dutch Guilder	2.29193	2.23702	-2.40	2.52	54
D-Mark	2.03412	1.98543	-2.39	2.52	71
Belgian Franc	41.9547	40.9865	-2.31	2.43	49
French Franc	6.82216	6.79137	-0.45	0.52	-46
Portuguese Escudo	176.844	176.107	-0.42	0.48	1
Danish Krone	7.75901	7.74060	-0.24	0.30	-48
Irish Punt	0.759300	0.758025	-0.17	0.23	-51
Spanish Peseta	139.176	139.268	0.07	0.00	-7

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Sep 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7275 - 1.7870	1.7805 - 1.7815	1.20-1.10cpm	7.75	2.90-2.80pm	6.40
Canada	2.1125 - 2.1825	2.1700 - 2.1710	1.13-1.18cpm	6.39	3.07-2.98pm	5.57
Netherlands	2.9450 - 3.0350	2.9650 - 2.9750	½-¼cpm	1.77	1½-1¼pm	1.85
Belgium	53.90 - 55.75	54.35 - 54.45	11-3cpm	1.54	28-22pm	1.84
Denmark	10.0875 - 10.4825	10.2350 - 10.2450	¼-¾oredis	-0.37	1½-¼pm	0.29
Ireland	0.9870 - 1.0275	1.0030 - 1.0040	1.40-1.70cpm	18.54	1.25-1.75pm	5.98
Germany	2.6125 - 2.6825	2.6375 - 2.6425	⅝-½pfpm	2.56	1⅜-1¼pm	1.89
Portugal	229.75 - 239.00	233.00 - 234.00	35-190cdis	-5.78	230-425dis	-5.61
Spain	181.50 - 186.00	185.45 - 185.75	7-10cdis	-0.55	19-29dis	-0.52
Italy	2184.00 - 2272.50	2188.25 - 2189.25	4-24lire dis	-7.68	19-39dis	-5.30
Norway	10.5750 - 10.8425	10.7000 - 10.7100	4¼-6½oredis	-6.17	6¼-8¾dis	-2.83
France	8.9375 - 9.1825	9.0300 - 9.0400	1-¼cpm	1.16	2¼-2¾dis	-1.11
Sweden	9.7325 - 10.1100	9.8350 - 9.8450	10½-11oredis	-12.88	21-24dis	-9.15
Japan	215.25 - 222.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	18.40 - 19.02	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	2.2775 - 2.3375	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu	1.3355 - 1.3945	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.30-5.20pm. 12 Month 9.20-9.00pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Sep 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7275 - 1.7870	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland†	1.7290 - 1.7770	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	1.2136 - 1.2230	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

Sep.17	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta.	Ecu
£	1	1.781	2.640	221.5	9.035	2.300	2.970	2189	2.170	54.40	185.6	1.349
$	0.561	1	1.482	124.4	5.073	1.291	1.668	1229	1.218	30.54	104.2	0.757
DM	0.379	0.675	1	83.90	3.422	0.871	1.125	829.2	0.822	20.61	70.30	0.511
YEN	4.515	8.041	11.92	1000.	40.79	10.38	13.41	9883	9.797	245.6	837.9	6.090
F Fr.	1.107	1.971	2.922	245.2	10.	2.546	3.287	2423	2.402	60.21	205.4	1.493
S Fr.	0.435	0.774	1.148	96.30	3.928	1	1.291	951.7	0.943	23.65	80.70	0.587
N Fl.	0.337	0.600	0.889	74.58	3.042	0.774	1	737.0	0.731	18.32	62.49	0.454
Lira	0.457	0.814	1.206	101.2	4.127	1.051	1.357	1000	0.991	24.85	84.79	0.616
C$	0.461	0.821	1.217	102.1	4.164	1.060	1.369	1009	1	25.07	85.53	0.622
B Fr.	1.838	3.274	4.853	407.2	16.61	4.228	5.460	4024	3.989	100.	341.2	2.480
Pta	0.539	0.960	1.422	119.3	4.868	1.239	1.600	1179	1.169	29.31	100.	0.727
Ecu	0.741	1.320	1.957	164.2	6.698	1.705	2.202	1623	1.609	40.33	137.6	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

THREE MONTH EUROLIRA INT. RATE
LIRA 1,000m points of 100%

	Close	High	Low	Prev.
Dec	86.78	87.12	84.45	86.10
Mar	87.47	87.55	86.70	86.60
Jun	87.95	87.90	87.10	88.15
Sep	88.43			88.63

Estimated volume 2619 (4234)
Previous day's open int. 16129 (16036)

FT-SE 100 INDEX *
£25 per full index point

	Close	High	Low	Prev.
Sep	2483.5	2510.0	2407.0	2389.0
Dec	2539.0	2560.0	2453.0	2447.0
Mar	2578.5			2486.5

Estimated volume 44779 (39128)
Previous day's open int. 53204 (51956)

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.7810	1.7695	1.7525	1.7285	1.6900

BASE LENDING RATES

	%		%		%
Adam & Company	10	Credit Lyonnais	10	McDonnell Douglas Bnk.	10
Allied Trust Bank	10	Cyprus Popular Bk	10	Midland Bank	10
AIB Bank	10	Dao Heng Bank Plc	11	Mount Banking	10
● Henry Ansbacher	10	Duncan Lawrie	10	NatWestminster	10
B & C Merchant Bank	13	Equatorial Bank plc	10	Northern Bank Ltd	10
Bank of Baroda	10	Exeter Bank Limited	10½	Nykredit Mortgage Bank	10.5
Banco Bilbao Vizcaya	10	Financial & Gen. Bank	10	Provincial Bank PLC	14
Bank of Cyprus	12	● Robert Fleming & Co.	10	● Rea Brothers	10
Bank of Ireland	12	Robert Fraser & Ptnrs.	10.5	Roxburghe Bank Ltd.	11
Bank of India	10	Girobank	10	Royal Bk of Scotland	10
Bank of Scotland	10	● Guinness Mahon	10	● Smith & Williamson Secs.	10
Banque Belge Ltd	10	Habib Bank AG Zurich	10	Standard Chartered	10
Barclays Bank	10	● Hambros Bank	12	TSB	10
Brit Bk of Mid East	12	Hampshire Trust Plc	13.5	Unibank plc	12
● Brown Shipley	12	Heritable & Gen Inv Bnk.	10	● United Bk of Kuwait	10
CL Bank Nederland	10	● Hill Samuel	12	Unity Trust Bank Plc	12
Citibank NA	10	C. Hoare & Co.	10	Western Trust	10
City Merchants Bank	10	Hongkong & Shanghai	12	Whiteaway Laidlaw	12
Clydesdale Bank	12	Julian Hodge Bank	10	Yorkshire Bank	10
Co-operative Bank	10	● Leopold Joseph & Sons	10	● Members of British Merchant Banking & Securities Houses Association.	
Coutts & Co	10	Lloyds Bank	10		
		Meghraj Bank Ltd	10		

MONEY MARKETS

Concerns on liquidity

TRADING ON the UK money markets was dominated by concerns about the massive liquidity shortage created by the Bank of England's recent attempts to prop up the pound, *writes Emma Tucker.*

UK clearing bank base lending rate 10 per cent from September 17, 1992

Estimates of the number of pounds bought by the Bank ahead of Britain's suspension from the European exchange rate mechanism on Wednesday ranged between £10bn and £20bn.

In the early morning, as traders worried about how the Bank was going to inject such big quantities back into the system, the overnight rate shot up to 150 per cent and one month money traded at 18 per cent.

Tensions eased, however, after the Bank announced a temporary facility to the banking system, to take effect today in a technical operation which would complement its normal money market operations.

The Bank said the facilities were being made available to a group of banks, the gilt-edged market-makers and the five biggest building societies to relieve the money market shortage expected today. The initial duration of the help would be seven days and the rate of interest 10 per cent.

The money market position would be reviewed in a week's time to assess the need to roll over the special facility, the Bank said.

"There's possibly going to be a larger than usual shortage tomorrow. We have always reserved the right to deal direct with the banks in addition to the discount houses if it suited us," a spokesman for the Bank of England said.

On the cash markets short sterling soared as expectations of further cuts in base rates took hold of the baskets. Short sterling futures, buoyed early in the day by the Bank's announcement that it was cutting the minimum lending rate to 10 per cent from 12 per cent, closed 263 basis points higher.

The December contract closed at 91.28 compared with a close of 88.65 on the previous day. This suggested that base rates would be 9 per cent, or just below, by the expiry of the contract.

The fact that the three month inter-bank rate closed at 10¼ per cent was more a reflection of residual worries over the liquidity shortage facing the system than anything to do with expectations base rates moves.

LONDON MONEY RATES

Sep 17	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	40	70	20	15	12	10½
Interbank Bid	9	12	11	10	10	9½
Sterling CDs	-	-	10⅛	10 1/16	9¾	9¾
Local Authority Deps	9¾	10	10	na	na	na
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	14½	12	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	10½	10	9⅝	9 5/16
Treasury Bills (Buy)	-	-	9 13/16	9⅝	9½	-
Bank Bills (Buy)	-	-	9⅞	9⅝	9⅜	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	3.03	3.03	3.06	3.20
SDR Linked Dep. Offer	-	-	6 1/16	6	6	6
SDR Linked Dep. Bid	-	-	5 13/16	5¾	5¾	5¾
ECU Linked Dep. Offer	-	-	11¼	11¼	11¼	10⅝
ECU Linked Dep. Bid	-	-	11⅛	10¾	10¾	10 5/16

Treasury Bills (sell); one-month 9 13/16 per cent; three months 9⅝ per cent; six months 9½ per cent; Bank Bills (sell): one-month 9¾ per cent; three months 9½ per cent; Treasury Bills; Average tender rate of discount 9.6665. ECGD Fixed Rate Sterling Export Finance. Make up day August 28, 1992. Agreed rates for period Sep. 23, 1992 to October 25, 1992. Scheme I: 11.38 p.c., Schemes II & III: 11.66 p.c. Reference rate for period August 1, 1992 to August 28, 1992, Scheme IV&V: 10.379 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10½ from September 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 6½ per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 8½ per cent; nine-twelve months 8½ per cent; Under £100,000 7 per cent from May 6, 1992, Deposits withdrawn for cash 5 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. Sep 17) 3 months US dollars		6 months US Dollars	
bid 3 5/16	offer 3 7/16	bid 3⅛	offer 3¼

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime					
Prime rate	6	One month	2.64	Three year	4.35
Broker loan rate	5	Two month	2.96	Five year	5.37
Fed funds	3 3/16	Three month	2.94	Seven year	5.92
Fed. funds at intervention	-	Six month	2.99	10-year	6.40
		One year	3.13	30-year	7.35
		Two year	3.81		

Sep.17	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	9.20-9.30	9.20-9.30	9.20-9.30	9.20-9.30	9.10-9.25	9.50
Paris	10¼-10⅛	10-10⅛	10-10⅛	10 1/16-10 3/16	10 1/16-10 3/16	9.60
Zurich	6¼-6⅛	6⅝-6⅛	-	6 13/16-6 11/16	-	-
Amsterdam	9.25-9.37	9.10-9.20	-	9.00-9.10	-	-
Tokyo	4 5/16-4 3/16	4 5/16-4 1/16	-	4¼-4 3/16	-	-
Milan	17¾-18	21 11/16-22¼	-	16 13/16-17⅛	-	-
Brussels	9¼-9½	9⅝-9 5/16	-	9¼-9½	-	-
Dublin	10-10¼	10 1/16-10 5/16	10½-10⅝	10½-10⅝	10½-10⅝	-

MONEY MARKET FUNDS

Money Market Trust Funds

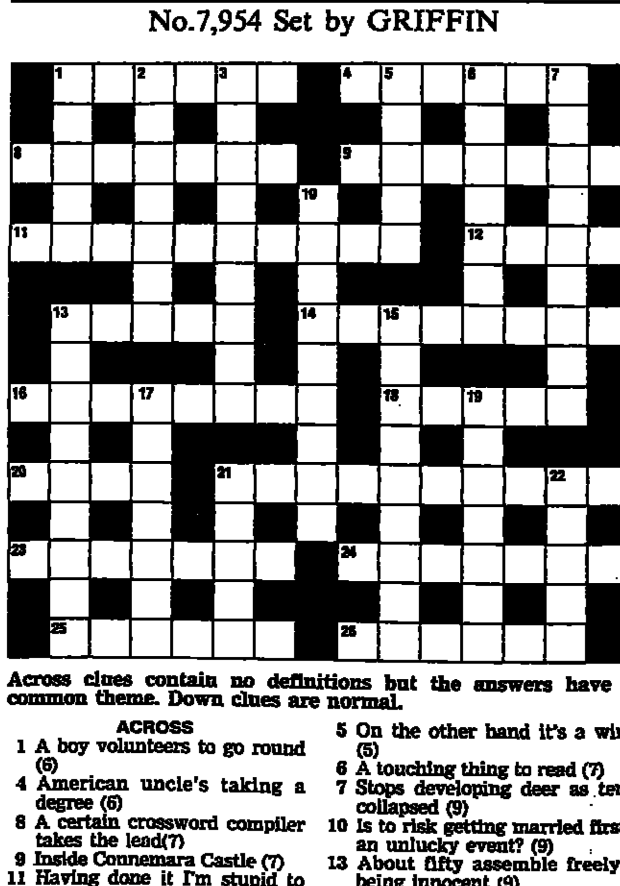
[illegible]

Money Market Bank Accounts

[illegible]

CROSSWORD

No.7,954 Set by GRIFFIN



Across clues contain no definitions but the answers have a common theme. Down clues are normal.

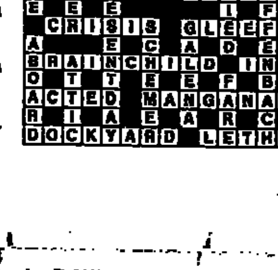
ACROSS

1 A boy volunteers to go round (6)
4 American uncle's taking a degree (6)
8 A certain crossword compiler takes the lead(7)
9 Inside Connemara Castle (7)
11 Having done it I'm stupid to accept thanks (10)
12 See 26 across
13 Turned blue around midnight (5)
14 Study horse bound to win nothing (8)
16 Enthusiast starts touring continent (8)
18 Chinese cookers have back door inserted (5)
20 Kay said yes, trembling (4)
21 Makes Jack sick in shaky surroundings (10)
23 Vicar taking port in the USA (7)
24 A way with jewellery (7)
25 Vessel containing cold beer (6)
26 and 12 Shelf on liner at sea (6,4)

DOWN

1 Doctor seen about cold gives view (5)
2 Lodging in gent's building (7)
3 Ringing at three names bullies (9)
5 On the other hand it's a win (5)
6 A touching thing to read (7)
7 Stops developing deer as ten collapsed (9)
10 Is to risk getting married first an unlucky event? (9)
13 About fifty assemble freely, being innocent (9)
15 Where you'll make novel move on board (9)
17 Advantage engineers seized when lifting mosaic blocks (7)
19 Collecting dried fruit on string (7)
21 Swimming in her running water (5)
22 Drink given royal backing (5)

Solution to Puzzle No.7,953



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WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Sep 17	Sep 16	Sep 15	Sep 14	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3319.21	3327.32	3376.22	3305.70	3413.21 (1/6)	3172.41 (2/1)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	102.86	102.93	103.04	102.85	103.04 (14/9)	98.41 (20/3)	103.04 (14/9/92)	54.99 (1/10/81)
Transport	1272.13	1285.83	1308.25	1277.59	1467.68 (20/2)	1204.40 (26/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	219.58	219.14	221.39	221.83	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

DJ Indl. Day's High (3353.52) Low (3288.95) (Theoretical♦)
Day's High (3338.93) Low (3307.60) (Actual♦)

STANDARD AND POOR'S

	Sep 17	Sep 16	Sep 15	Sep 14	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	419.92	419.77	425.27	419.58	425.27 (14/9)	394.50 (8/4)	425.27 (14/9/92)	4.40 (1/6/32)
Industrials	♦496.46	496.43	503.30	495.96	503.30 (14/9)	470.91 (8/4)	503.30 (14/9/92)	3.62 (21/6/32)
Financial	35.12	35.07	35.45	34.79	36.66 (3/8)	32.40 (8/4)	36.66 (3/8/92)	8.64 (1/10/74)
NYSE Composite	231.07	231.04	233.73	230.80	233.73 (14/9)	217.92 (8/4)	233.73 (14/9/92)	4.46 (25/4/42)
Amex Mkt. Value	385.52	385.73	390.05	386.45	418.99 (12/2)	374.04 (26/6)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	585.89	587.86	594.21	583.01	644.92 (12/2)	547.84 (26/6)	644.92 (12/2/92)	54.87 (31/10/72)

	Sep 11	Sep 4	Aug 28	year ago (approx.)
Dow Industrial Div. Yield	3.12	3.15	3.16	3.07

	Sep 9	Sep 2	Aug 26	year ago (approx.)
S & P Industrial div. yield	2.64	2.63	2.64	2.70
S & P Indl. P/E ratio	27.46	27.52	27.18	21.33

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day
Royal Dutch	(u)	86½	+ ¼
IBM	(u)	82⅞	- 2⅝
Glaxo	(u)	28⅞	- ¼
Merck	(u)	47	- ½
Gen Motors	(u)	33¼	- ⅝
Du Pont	(u)	47	- ⅞
Ford Motor	(u)	41¼	- ⅝
RJR Nabisco	(u)	8¾	- ¼
Hanson	(u)	19⅝	+ ¼
Philip Morris	(u)	84½	....

TRADING ACTIVITY

† Volume Millions	Sep 16	Sep 15	Sep 14
New York SE	229.380	200.220	250.107
Amex	17.004	14.488	12.610
NASDAQ	181.506	183.013	226.999
NYSE			
Issues Traded	2,324	2,334	2,352
Rises	780	494	1,295
Falls	967	1,325	573
Unchanged	577	515	484
New Highs	54	51	134
New Lows	38	22	16

CANADA

TORONTO	Sep 17	Sep 16	Sep 15	Sep 14	1992 HIGH	1992 LOW
Metals & Minerals	2944.58	2957.18	2975.59	2919.37	3238.87 (16/1)	2828.26 (8/4)
Composite	3453.80	3464.10	3470.40	3440.60	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	1789.63	1804.87♦	1805.60	1786.45	1937.59 (16/1)	1727.04 (8/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♦ Corrected figure.

	Sep 17	Sep 16	Sep 15	Sep 14	1992 HIGH	1992 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1511.8	1506.4	1530.4	1536.7	1684.50 (22/5)	1478.90 (9/9)
All Mining (1/1/80)	669.9	667.1	676.4	677.7	726.80 (3/7)	652.40 (9/9)
AUSTRIA						
Credit Aktien (30/12/84)	331.21	328.46	330.19	331.19	458.57 (24/2)	291.41 (13/8)
Traded Index (2/1/91)	806.01	795.75	799.20	804.04	1099.43 (24/2)	682.96 (13/8)
BELGIUM						
BEL20 (1/1/91)	1131.56	1110.60	1107.96	1120.25	1235.40 (2/6)	1046.07 (2/9)
DENMARK						
Copenhagen SE (3/1/83)	266.54	266.88	271.50	274.30	365.29 (15/1)	266.54 (17/9)
FINLAND						
HEX General (28/12/90)	578.6	577.1	586.2	589.3	935.90 (24/2)	541.00 (7/9)
FRANCE						
CAC General (31/12/82)	494.48	485.71	496.70	495.21	555.93 (12/5)	462.23 (2/9)
CAC 40 (31/12/87)	1852.74	1859.78	1836.15	1873.60	2077.49 (11/5)	1667.72 (25/8)
GERMANY						
FAZ Aktien (31/12/58)	620.43	612.55	621.03	623.34	725.26 (26/5)	582.34 (26/8)
Commerzbank (1/12/53)	1752.4	1733.4	1758.1	1765.5	2043.80 (25/5)	1642.70 (26/8)
DAX (30/12/87)	1578.67	1584.56	1587.55	1595.04	1811.57 (25/5)	1468.91 (25/8)
HONG KONG						
Hang Seng Bank (31/7/64)	5637.90	5633.13	5653.84	5607.15	6162.53 (16/7)	4301.78 (2/1)
IRELAND						
ISEQ Overall (4/1/88)	1207.66	1204.09	1219.03	1209.78	1469.57 (17/1)	1196.07 (11/9)
ITALY						
Banca Com. Ital. (1972)	367.15	354.93	373.14	379.04	551.59 (6/2)	354.93 (16/9)
MIB General (2/1/92)	722.0	696.0	733.0	746.8	1086.00 (5/2)	696.00 (16/9)
JAPAN						
Nikkei (16/5/49)	18116.52	17944.70	(c)	18471.40	23801.18 (6/1)	14309.41 (18/8)
Tokyo SE (Topix) (4/1/68)	1355.63	1352.60	(c)	1383.11	1763.43 (6/1)	1102.50 (18/8)
2nd Section (4/1/68)	1758.60	1771.18	(c)	1784.96	2459.85 (6/1)	1582.77 (19/8)
MALAYSIA						
KLSE Composite (4/4/86)	587.13	585.15	585.91	583.74	619.86 (20/2)	546.63 (14/1)
NETHERLANDS						
CBS Tll.Rtn.Gen.(End 1983)	294.5	293.6	290.4	292.4	314.90 (9/6)	274.00 (8/1)
CBS All Shr (End 1983)	198.5	197.9	195.8	197.1	215.50 (26/5)	189.70 (25/8)
NORWAY						
Oslo SE (Ind) (2/1/83)	573.33	562.52	567.88	583.64	772.74 (18/5)	532.43 (25/8)
PHILIPPINES						
Manila Comp (2/1/85)	1427.02	1433.44	1429.27	1418.51	1580.95 (11/6)	1083.01 (17/3)
SINGAPORE						
SES All-Singapore (2/4/75)	362.85	365.30	368.54	368.93	416.99 (21/1)	354.15 (19/8)
SOUTH AFRICA						
JSE Gold (28/9/78)	919.0	913.0	894.0	905.0	1327.00 (21/1)	857.00 (18/9)
JSE Industrial (28/9/78)	4108.0	4087.0	4132.0	4104.0	4689.00 (4/6)	3973.00 (14/8)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	533.66	539.30	544.82	551.31	691.48 (8/2)	459.07 (21/8)
SPAIN						
Madrid SE (30/12/85)	210.98	211.25	213.88	214.94	266.51 (28/2)	203.76 (26/8)
SWEDEN						
Affarsvariden Gen. (1/2/37)	735.3	740.8	745.8	759.9	1014.50 (11/5)	707.20 (10/9)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	859.0	853.8	848.4	857.5	883.40 (11/5)	748.50 (8/1)
SBC General (1/4/87)	664.7	638.9	634.8	642.1	682.30 (11/5)	596.40 (26/8)
TAIWAN**						
Weighted Price (30/6/66)	3441.69	3664.52	3716.72	3685.84	5391.63 (30/1)	3441.69 (17/9)
THAILAND						
Bangok SET (30/4/75)	824.26	813.33	817.74	817.95	832.39 (7/9)	667.84 (19/5)
WORLD						
M.S. Capital Intl (1/1/70) ($)	500.4*	498.1	507.0	509.2	542.10 (7/1)	467.50 (8/4)
Euro Top-100 (26/6/90)	852.56	844.98	835.61	849.41	976.55 (25/5)	132.99 (3/9)

**Saturday September 12: Taiwan Weighted Price: (c), Korea Comp Ex. (c)
‡ Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., Euro Top-100, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Thursday, September 17, 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Green Cross	0.8m	1,720	+50	Meiji Milk	0.3m	1,080	+20
Nippon Mining	0.6m	510	+5	Mitsubishi Mat	0.3m	461	+7
Sumitomo Mtl	0.6m	782	+51	Mitsui Min	0.2m	453	+80
Nikkatsu	0.4m	321	+41	Isuzu Motor	0.2m	368	-10
NPN Steel	0.3m	302	+2	Mitsui Eng	0.2m	420	-4

3 pm September 17

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	11¼	AAR Corp	0.48	4.0	18	413	12	d11½	11⅞	
26	18	A L Labs A x	0.18	0.8	78	717	22¼	22	22	-¼
68¼	52⅞	AMP Inc	1.52	2.5	23	2090	60¼	59⅞	60⅛	+⅛
80¼	55	AMR				213842	58⅞	57¾	58⅜	+⅜
2⅜	1⅛	ARX			16	100	1⅝	1½	1½	-⅛
53½	33⅞	ASA	2.00	5.6	23	312	36¼	35½	35⅝	-⅞
34¼	26⅛	Abbott Lab	0.60	2.0	21	7950	30⅛	29½	29¾	
13⅞	11⅞	Abitibi Pr	0.50	4.0	6	17	12⅜	12⅜	12⅜	
11⅝	10⅛	ACM Gvt In x	1.06	9.3		127	11⅜	11¼	11⅜	+⅛
10⅜	9⅛	ACM GvOpp x	0.78	8.1		143	10	9¾	9¾	-¼
9⅝	8½	ACM Gvt Sp	0.89	9.4		234	9½	9⅜	9½	
11¼	10⅛	ACM Gvt Se	0.96	8.5		201	u11¼	11⅛	11¼	+⅛
10⅞	8⅝	ACM Man x	1.08	10.3		224	u10⅝	10½	10½	
12⅞	10½	ACM Managd x	1.15	10.8		653	11	d10½	10⅝	-½
11¾	4¼	Acme Cleve	0.40	5.8	13	295	7	6⅝	6⅞	-¼
6¼	4⅜	Acme Elect				35z100	4⅜	4⅝	4⅝	
33¾	15¼	Acuson				107057	16¾	d15	15¼	-⅜
19½	18⅛	Adams Expr	0.48	2.4	1	57	u19⅝	19½	19⅝	+¼
49⅛	29½	Ad Micro	3.00	7.8		25	38¾	38½	38½	
21½	7½	Ad Micro P	3.00	24.7		43452	12¼	12⅛	12⅛	
9⅛	4⅞	Advest Grp	0.16	2.9	66	43	5⅝	5½	5½	
40⅞	33	Aegon ADR	1.66	4.3	7	3	39¾	39¼	39½	
47	38¼	Aetna Li	2.76	7.2	9	756	38⅞	d38¼	38½	-¼
12¼	8⅞	AHI A	0.24	2.2	13	607	11½	11	11⅛	-⅜
34	24	Aflac	0.44	1.5	14	2342	30¼	29⅞	30⅛	+⅛
19⅛	14½	Ahmanson	0.88	6.2	6	3496	14½	d14¼	14¼	-¼

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
58	49⅞	ScheringPl	1.56	2.6	17	1961	59½	58⅞	59⅛	+⅛
69⅞	52¾	Sch'berger	1.20	1.7	19	1162	69	68⅝	68⅞	+⅛
37⅞	18¼	Schwab(C)	0.24	1.2	9	2152	19¾	19¼	19⅝	-⅛
10⅞	4⅞	Schwitzer				60 7	5⅝	5½	5½	-⅛
29⅞	15¼	SoientAtla	0.16	0.6	41	166	29¼	28⅞	28¾	+⅛
10⅝	7¼	Scotman	0.10	1.1	109	16	8⅞	8¾	8¾	-¼
48	34½	ScottPaper	0.80	2.1	19	2640	38⅝	37⅞	38¼	+⅜
17½	13⅞	ScuddrNAsF	0.22	1.5		26	15¼	15	15	-⅛
9⅞	8½	ScuddrNEuF	0.30	3.2		251	9½	9¼	9¼	
24	15	Sea Contnr	0.20	1.1	10	27	18¼	18	18¼	-¼
15¾	14⅞	SeaC1.4625	1.46	9.3		17	u15¾	15¼	15¾	
31	25⅞	Seagram Co	0.56	1.9	15	1368	28⅞	28½	28⅞	+½
32	21⅝	Seagull En			167	96	31½	31¼	31¼	+¼
56⅞	43¾	Sealed Air			22	x100	45⅝	45⅜	45⅝	
23	12⅛	SPX Corp	0.40	2.3	24	108	17⅞	17⅝	17⅝	
48	37	Sears Roeb	2.00	4.9	10	4726	41⅞	40⅝	40⅝	-⅞
13¼	11⅞	Seligm Sel	0.84	6.7		126	12⅞	12½	12½	-⅛
31⅞	22¾	Sensormat	0.30	1.1	24	849	26⅞	26½	26½	
51	36¼	Sequa A x	0.60	1.6	36	10	37⅞	37½	37½	-¼
58	45½	Sequa B x	0.50	1.1	24	16	46½	46¼	46¼	-½
18⅞	15¼	ServiceCpI	0.40	2.3	15	2226	17½	17⅜	17⅜	+⅜
29⅞	22	Servicemr	1.18	4.3	16	200	28	27⅝	27¾	-¼
28⅞	17	Shaw Ind	0.30	1.2	26	178	24⅞	24	24⅞	-⅛
19¼	9⅞	Shawmut N	1.00	8.8	23	2456	14¾	14⅝	14⅝	+⅛
10¼	6⅞	Shelby Wil	0.24	3.0	34	x100	8	8	7⅞	
57⅞	45⅝	Shell Tr&T	2.57	4.6	12	732	56⅞	55⅞	56¼	+1⅛
30⅞	25⅞	Sherwin W	0.44	1.5	19	756	29⅞	28⅞	28⅞	-½
27¼	15½	Shoneys			15	2691	18⅞	17⅞	18	+⅛

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
55	50½	Xerox4.125				4	53	53	53¼	+¼
33¾	24⅞	Xtra 1.94	1.94	5.8		17	33⅞	33	33⅛	-⅛
45⅞	28½	Xtra Corp	0.80	1.8	13	95	45¾	44⅞	45⅜	+½
30¼	25¼	Yankee Egy	1.66	6.8	13	23	28⅝	28½	28½	-¼
1½	½	Zapata			23	102	1	15/16	15/16	-1/16
11⅞	6⅞	ZenithElec			4	89	6⅝	6½	6½	-⅛
19½	14½	Zenith Nat	1.00	5.8	8	22	17¼	17¼	17¼	-⅛
7½	6	Zenix Inc x	0.82	11.5		129	7⅛	7	7⅛	+1/16
13¾	10	Zero Corp	0.40	3.4	18	369	12	11⅝	11¾	+½
39	27¼	Zurn Ind x	0.88	2.9	33	98	31⅛	30¾	30¾	-¼
14⅛	12	Zweig Fund	1.12	8.5		194	13⅛	13	13⅛	+⅛
11	9½	Zweig Totl x	0.96	9.1		231	10½	10⅜	10½	

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial).

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3 pm September 17

NASDAQ NATIONAL MARKET

3 pm September 17

AMERICA

Data ignored as Dow focuses on Europe

Wall Street

US stocks moved narrowly higher yesterday morning but activity was subdued as Wall Street remained focused on events in Europe, *writes Karen Zagor in New York.*

At 1 pm, the Dow Jones Industrial Average was up 6.49 at 3,325.70, having lost 2.97 in the first half hour of trading. Big board turnover was unexceptional, at less than 111m shares, with advancing issues leading declining by a ratio of 8 to 7. Other market indices also showed gains, with the Standard & Poor's 500 1.12 higher at 421.04 and the Nasdaq composite adding 2.82 to 588.71.

There was little market reaction to domestic economic news as attention remained riveted on European money markets.

GTE, the biggest US local telephone company, led NYSE morning trading. The stock rose $⅛ to $33 after announcing that it had priced a 30m common stock offering at $32⅞ a share. GTE has about 895m shares outstanding.

International Business Machines edged $⅛ higher to $83 after losing $2⅝ a day earlier when analysts lowered their ratings on the stock and reduced earnings forecasts following news that Amdahl, another big mainframe computer maker, expected a third quarter loss.

Minnesota Mining & Manufacturing fell $1⅝ to $101⅜ after the company warned that its 1992 earnings could fall at the low end of analysts estimates, depending on the economy.

United Technologies, the aero-engines to motor components group, tumbled $2⅞ to $51⅝ on reports that its third quarter results would fall short of expectations.

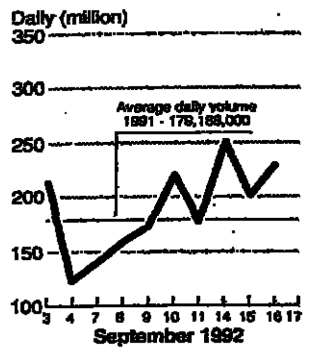
Boeing eased $⅛ to $35⅛ after the company reached an agreement in principle with GPA Group, the aircraft leasing company, to defer delivery of up to 154 aircraft worth $5bn for up to three years.

National Westminster's American Depository Shares firmed $2½ to $38 after the UK bank cut its base lending rate to 10 per cent from 12 per cent, bringing the rate back to its Wednesday morning levels.

Constar International soared $7¾ to $32⅛ after agreeing to be acquired by Crown Cork & Seal for $32½ a share. Crown Cork & Seal edged $¼ lower to $36⅛.

In Nasdaq trading, Apple Computer lost $1 to $46 after an analyst at Donaldson Lufkin & Jenrette downgraded his rating on the stock from "neutral" to "unattractive."

NYSE volume



Canada

TORONTO watched the US dollar, and looked ahead to Sunday's Maastricht vote in France and the Michigan consumer confidence survey to be released today.

Traders decided to stay cautious, and the TSE 300 composite index eased another 6.9 to 3,446.9 in volume of 16.8m shares. Declines led advances by 232 to 174, and market transactions were valued at C$164.6m.

Bombardier class B shares slid for the second straight day as investors re-evaluated earnings prospects, losing C$⅛ to C$12⅝ in heavy trade of 1.19m shares. American Barrick fell C$1 to C$38⅞ as the gold sector fell by 2.1 per cent.

EUROPE

Bourses mixed on devaluation effect

HOPES of lower interest rates boosted shares in Milan yesterday, but the Bundesbank's decision to keep its rates high hit prices in Paris and Frankfurt, *writes Our Markets Staff.*

Mr Sushil Wadhwani, the Goldman Sachs strategist, said last night that recent events were good news for European equities, at a minimum implying lower interest rates in countries where they had risen to protect the currency, and a probable acceleration in the timetable to cut German rates.

FRANKFURT closed an uncertain day with a late decline, the DAX index ending 5.89 lower at 1,578.67. Caution reigned ahead of the expiry of stock and futures options today, and the French Maastricht referendum on Sunday, and turnover fell from DM6.3bn to DM5.9bn.

Currency considerations moved from the D-Mark/dollar relationship to that with others in the EC, and the threat to some major exporters. Volkswagen dropped DM9.20 to DM320.80, cutting its rise on the week to just DM4.80, while BMW, only DM2.50 lower at DM544.50, stayed DM28.50 ahead on the week.

Mr Horst-Kaspar Greven, of Merck Finck in Düsseldorf, said that VW had such thin margins in Europe that a 1 per cent swing in the D-Mark/French franc parity could wipe out its trading profits there, whereas BMW was much more profitable. VW too, he said, was more susceptible to the fear that the German consumer would cut spending, and push up the national savings ratio in the interests of economic austerity.

That fear hit retailing, where Douglas, Karstadt and Kaufhof fell DM10 to DM455, DM4.50 to DM525, and DM11.50 to DM418.50 respectively, all showing falls on a week over which the DAX was still 3.3 per cent higher yesterday.

Meanwhile, Mannesmann lost DM12 to DM231 and Thyssen DM4.50 to DM190, both emerging as serious underperformers on the week so far after Reuter, in Amsterdam, reminded markets of the serious overcapacity in the European steel industry.

PARIS was disappointed in the Bundesbank decision, which stifled a morning rally and left the CAC-40 index down 7.04 at 1,852.74, after an intraday high of 1,879.32. Turnover remained reasonable at FFr3bn.

Some corporate news enlivened activity with first half earnings from LVMH coming in slightly ahead of expectations. Its shares closed up FFr35 at FFr3,913. Chargeurs also pleased the market with good figures, particularly from the textile division, and it closed FFr59 ahead at FFr1,199.

MADRID seemed to be undecided about the merits of a peseta devaluation, as the general index shed 0.27 to 210.98. Turnover was high at Pta15bn.

Some analysts said that devaluation was likely to add seriously to the inflation rate and affect the economy because of the lack of a strong export base. There were also fears that the interest rates may have to be raised. The Spanish component of the FT-SE Eurotrack 100 index, expressed in D-Marks, fell 32.91 to 965.50 in the post-bourse.

Active stocks included Popular, up Pta70 at Pta9,760 and Union Fenosa, down Pta26 or 4.9 per cent at Pta499 with some 3.2m shares traded.

AMSTERDAM found much to talk about after Elsevier revealed that it was to merge with Reed of the UK. Some analysts were cautious about the terms and Elsevier's shares shed Fl 11.50 or 9.8 per cent to Fl 105.20. Frans Maas, the transport group, reported a 6 per cent increase in first half earnings, and it closed Fl 2.50 higher at Fl 62.50.

MILAN, which soared on Monday when the lira saw a limited devaluation (and receded on Tuesday and Wednesday), climbed again as the Bank of Italy suspended its obligations to keep the lira inside the set limits of the ERM.

The Comit index rose 12.22 to 367.15, leaving the market little changed on the week so far in lira terms. The hard currency investor, meanwhile, is looking at a fall of nearly 10 per cent in the lira denominated equities against the D-Mark over the same period.

ZURICH, the professionals' investment choice in recent days, closed higher in heavy volume, dominated by foreign demand. Major banks and front-line industrials were in the limelight as the SMI index rose 15.6 to 1,889.6.

A higher Swiss franc and lower interest rates helped Union Bank bearers top the active list as it rose SFr11 to SFr770, CS Holding bearers putting on SFr95 to SFr1,905. Nestlé came second, its bearers gaining SFr11 to SFr988, and Brown Boveri were also active as the bearers rose SFr70 to SFr3,800.

BRUSSELS enjoyed another day of advances, led by dollar-sensitive stocks. The Bel-20 index gained 20.96 to 1,131.56. Delhaize was one of the strongest performers, up BFr70 or 4.2 per cent at BFr1,710.

STOCKHOLM saw advances in some dollar-sensitive blue chips and forestry shares although the general mood remained uncertain. The Affärsvärlden Index lost 4.7 to 735.3 in turnover up to SKr505m from SKr430m.

Banks were upset by high interest rates and news on Wednesday that Gota AB had suspended payments to creditors. S-E-Banken C shares lost SKr2.00 to SKr11.50 and Handelsbanken B shares dropped SKr5 to SKr25.

OSLO gained on the stronger dollar as the composite index advanced 5.7 to 324.18 in turnover of NKr267.4m.

Among the day's strongest performers were Norsk Hydro, up NKr5 to NKr144 and Saga Petroleum free shares up NKr3.50 at NKr66.50.

HELSINKI displayed one of the open wounds of the Nordic markets this year. The HEX index rose 1.6 to 578.7 but this masked a 10.5 per cent drop in the bank and finance index on continued gloomy prospects for the industry.

FT-SE Eurotrack 100 - Sep 17

Hourly changes

Open	10.30am	11 am	12 pm	1 pm	2 pm	3 pm	close
1058.54	1059.29	1060.09	1058.70	1056.45	1055.28	1056.07	1058.13

Day's High 1062.33 — Day's Low 1053.80

Sep 16	Sep 15	Sep 14	Sep 11	Sep 10
1053.63	1051.69	1073.79	1033.57	1027.59

Base value 1000 (26/10/90).

ASIA PACIFIC

Arbitrage and speculative buying lifts Nikkei

Tokyo

FUTURES-LINKED arbitrage buying and speculative short-term purchases lifted share prices yesterday, *writes Emiko Terazono in Tokyo.*

The Nikkei average gained 171.82 at 18,116.52. It fell briefly to set a day's low of 17,804.60 in the morning on light profit-taking, before arbitrage and dealer buying took it to a high for the session of 18,204.74 in the afternoon.

Institutional investors, however, stayed on the sidelines and volume remained low, at 270m shares against the previous day's 263m.

Declines still outnumbered rises at the close by 554 to 445, with 144 issues unchanged, but the Topix index of all first section stocks was 3.03 firmer at 1,355.63. In London the ISE/Nikkei 50 index put on 2.29 to 1,085.79.

A lack of news prompted speculative traders to focus on mining and non-ferrous metal companies. Reports of a gold discovery in the Oita prefecture, in southern Japan, triggered heavy buying orders. Mitsui Mining & Smelting rose by its daily limit of Y80 to Y453 and Sumitomo Metal Mining advanced Y51 to Y782.

Banks were mixed, some investors regarding the sector as a potential beneficiary of lower interest rates, while others were concerned about mounting problem loans. Industrial Bank of Japan gained Y10 at Y2,690 but Dai-Ichi Kangyo Bank lost Y30 to Y1,620. Bank of Tokyo added Y50 at Y1,350 on overseas rumours that it would merge with Mitsubishi Bank, down Y10 at Y2,220.

Pharmaceutical and food issues advanced on the Aids theme. Green Cross, the most active stock of the day, moved up Y50 to Y1,720 and Meiji Milk Products Y20 to Y1,080.

In Osaka, the OSE average dipped 17.90 to 19,501.41 in volume of 26.5m shares.

The Hanshin group advanced on the recent winning streak of Hanshin Tigers, the Osaka-based professional baseball group, Hanshin Department Store climbing Y85 to Y725 and Hanshin Real Estate appreciating Y41 to Y600.

Roundup

TURBULENCE in European currency markets affected trading in the Pacific Rim region yesterday, although a number of markets showed gains in late dealings.

HONG KONG rebounded in the afternoon and the Hang Seng Index ended 4.77 up at 5,637.90 after touching 5,543.25. Turnover rose from HK$1.18bn to HK$1.94bn. HSBC fell HK$1 to HK$53.50 on worries that Midland Bank, of the UK, would show lower earnings because of sterling's weakness.

TAIWAN's weighted index fell 222.83, or 6.1 per cent, to a 20-month low of 3,441.69 on news that a number of investors had failed to make T$1.7bn in payments to broking houses for stock purchases.

SINGAPORE saw heavy selling of blue chips late in the day. The Straits Times Industrial index lost 15.97 at 1,351.80 in volume of 27.8m shares.

KUALA LUMPUR's composite index rose 1.98 to 587.13 following a cut of 20 basis points in base rate to 9 per cent.

BANGKOK was optimistic about attempts by pro-democracy parties to form a new governing coalition and the SET index added 10.93 at 824.26. Turnover was Bt12.5bn.

NEW ZEALAND ended higher on large volume. The NZSE-40 index gained 14.08 at 1,483.95. Turnover was 18.2m shares, worth NZ$39.5m.

BOMBAY fell as state-owned financial institutions sold heavily, and bulls then followed suit. The BSE index closed 26.78 off at 3,378.18, and brokers said Tuesday's rise in petrol and petroleum product prices hit the market.

SOUTH AFRICA

INDUSTRIALS showed steady gains as gold shares fell back on the weaker bullion price. The gold index closed up 6 at 919, after a day's high of 941. The industrial index rose 21 to 4,108 and the overall index was 17 firmer at 3,154.

Denmark's fall mars its reputation for caution

Hilary Barnes reviews performance in Copenhagen

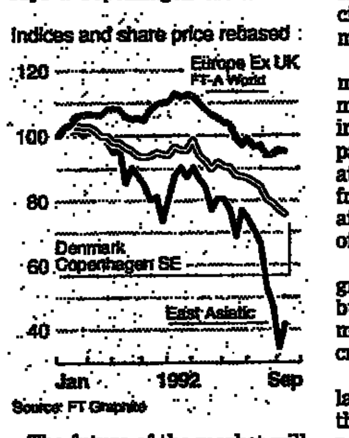
The Danish share market has put up one of Europe's worst performances this year, with a fall in the CSE index to date of 24 per cent, as a reputation for financial propriety has been damaged by financial sector trauma elsewhere in the Nordic bloc, as well as by some problems at home.

At the beginning of the year, almost everyone forecast a solid rise in Copenhagen share prices in 1992. The assumptions behind this forecast were that interest rates would fall and that recovery in the US economy would lift international demand.

Both these conditions have been disappointed, and domestic factors have made matters worse. First, Danish voters injected a new element of uncertainty into the equation when they rejected the Maastricht treaty in the referendum on June 2. This has resulted in an increase in the yield gap between Danish and German bonds from about 80 basis points before the referendum to around 180 points now.

The fall in share prices has actually been slightly less than is warranted by the rise in yields in bond markets, said one Copenhagen broker yesterday. The risk premium for investing in shares has therefore narrowed from about one per cent at the beginning of the year to about 0.5 per cent today.

Secondly, the collapse of Hafnia Holding, parent company of the Hafnia insurance group, which went into payments suspension in August, has upset investors, especially foreigners. Although the problems in the Danish financial sector are not as severe as they are in the other Nordic countries, it is difficult for outsiders to see this, says a Copenhagen broker.



The future of the market will also depend on interest rate movements. "Prices should not fall much more," says Mr Flemming Madsen, chief analyst at Danske Bors, the broking arm of Danske Bank, "but they will remain very sensitive to interest rate changes."

Mr Madsen and other brokers point out that on earnings performance the bigger Danish industrials do not deserve the fall in share prices which they have seen this year. An average increase in earnings of 11 per cent is expected for this group in 1992, followed by a further improvement in 1993, meaning that prospective price/earnings ratios are now lower than at any time for three years.

Stock prices for some of these companies, Novo Nordisk, Danisco, FLS Industries, Radiometer, and Sophus Berendsen among them, can be expected to bounce strongly once the market in general begins to recover, brokers say.

On the other hand, shipping shares, banks and other financial institutions are not recommended by Danish brokers.

The difficulties in the freight market were behind one of the more dramatic developments in the Danish market over the past month, when the East Asiatic Company's share price fell from a high of DKr92 to DKr52 after reporting a first-half loss of DKr181m.

The loss arose mainly in the group's shipping operations, but investors lost confidence more especially as a result of criticism of the management.

EAC had recovered to DKr66 last night. Mr Henning Sparso, the group's chairman for the past 10 years, resigned after a board meeting last Friday, and an outsider, Mr Jan Erlund, who is a lawyer, was named to succeed him after a meeting of shareholders has approved the appointment in October.

Banks are not in such deep trouble as those in other Nordic countries and, so far, none of the larger banks has had trouble in meeting Denmark's exceptionally high 10 per cent capital adequacy ratio.

Indeed, shares in the two big banks are still above par value, which contrasts with bank shares in the other Nordic countries, with Den Danske Bank's at DKr229 and Unidanmark's at DKr132 last night. They are, however, down 32 and 44 per cent respectively from their 1992 highs and, until interest rates fall and domestic demand picks up, they will continue to face a difficult period.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY SEPTEMBER 16 1992								TUESDAY SEPTEMBER 15 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (68)	130.14	−1.4	106.54	102.79	102.74	117.93	−1.7	4.15	132.00	104.57	103.68	101.95	119.98	153.68	124.36	150.98
Austria (19)	153.44	−3.1	125.62	121.20	121.14	120.53	−0.6	2.42	156.43	125.51	124.43	122.36	121.26	186.70	139.27	163.08
Belgium (42)	138.66	−2.2	113.52	109.51	109.47	106.52	−0.5	5.78	141.81	112.34	111.37	109.52	107.02	152.27	135.87	130.03
Canada (114)	125.15	−0.7	102.46	98.85	98.80	110.65	−0.3	3.14	126.01	99.82	98.96	97.31	111.00	142.12	124.32	136.75
Denmark (33)	196.78	−4.3	161.10	155.43	155.35	156.44	−2.0	1.82	205.57	162.85	161.46	158.76	159.64	273.94	196.78	257.04
Finland (15)	52.92	−5.5	43.33	41.80	41.78	52.69	−1.6	2.68	55.99	44.36	43.98	43.24	53.54	89.80	52.92	93.54
France (102)	158.22	−1.3	129.53	124.96	124.90	127.88	+0.8	3.51	160.35	127.03	125.93	123.83	126.83	168.75	148.06	142.70
Germany (64)	111.97	−3.5	91.67	88.45	88.40	88.40	−1.4	2.59	116.06	91.94	91.18	89.63	89.63	129.69	111.97	111.13
Hong Kong (53)	232.24	−0.2	190.13	183.43	183.35	230.47	−0.3	3.67	232.80	184.42	182.84	179.80	231.05	259.55	176.36	162.00
Ireland (16)	145.54	−4.8	119.14	114.95	114.90	116.55	−2.1	4.63	152.87	121.11	120.07	118.06	119.04	173.71	145.54	163.90
Italy (78)	49.25	−9.0	40.32	38.90	38.88	45.99	−4.9	4.53	54.12	42.88	42.51	41.80	48.38	80.86	49.25	74.05
Japan (473)	108.24	−2.9	88.61	85.49	85.46	85.49	−2.4	1.00	111.47	88.31	87.55	86.10	87.55	140.95	87.27	132.24
Malaysia (69)	238.62	−0.1	195.35	188.46	188.38	230.99	+0.0	2.78	238.75	189.13	187.50	184.38	230.93	250.47	212.49	199.11
Mexico (18)	1243.19	−1.9	1017.75	981.91	981.45	4207.52	−1.9	1.43	1267.81	1004.35	995.74	979.14	4289.46	1789.77	1213.33	1204.31
Netherland (25)	158.68	−1.0	129.90	125.33	125.27	124.03	+1.4	4.57	160.25	126.95	125.86	123.77	122.37	167.29	147.88	141.42
New Zealand (14)	42.97	−0.2	35.18	33.94	33.93	41.57	−0.9	5.47	43.04	34.10	33.81	33.24	41.94	48.52	41.90	47.01
Norway (22)	138.51	−3.1	113.39	109.40	109.35	112.66	−1.2	2.15	142.93	113.23	112.26	110.39	114.02	192.95	136.40	196.62
Singapore (38)	188.81	−2.2	154.57	149.13	149.05	139.26	−1.9	2.38	193.06	152.94	151.63	149.10	141.99	229.63	180.71	193.84
South Africa (61)	182.02	−2.8	149.01	143.76	143.69	153.75	−1.7	3.32	187.23	148.32	147.04	144.59	156.34	263.60	175.15	251.78
Spain (48)	128.51	−5.8	105.21	101.50	101.45	98.82	−1.0	6.05	136.45	108.10	107.17	105.38	99.86	161.72	128.51	156.23
Sweden (30)	166.59	−1.2	136.38	131.58	131.52	136.63	+0.0	3.01	168.61	133.57	132.43	130.22	136.60	200.28	166.59	196.95
Switzerland (60)	114.91	+0.7	94.07	90.77	90.73	94.11	+1.2	2.28	114.07	90.37	89.60	88.11	92.96	117.73	95.99	94.10
United Kingdom (228)	169.19	−3.2	138.51	133.62	133.56	138.51	+0.1	5.32	174.73	138.42	137.22	134.93	138.42	200.07	165.85	180.17
USA (522)	171.22	+0.0	140.17	135.24	135.18	171.22	+0.0	2.96	171.27	135.68	134.52	132.28	171.27	173.39	160.92	157.00
Europe (782)	138.52	−2.8	113.40	109.41	109.36	111.95	−0.2	4.26	142.53	112.91	111.95	110.09	112.15	156.88	138.52	142.29
Nordic (100)	150.15	−2.4	122.92	118.59	118.54	117.49	−0.8	2.55	153.87	121.90	120.85	118.84	118.39	188.52	150.15	189.99
Pacific Basin (715)	112.75	−2.6	92.31	89.06	89.02	90.54	−2.2	1.34	115.81	91.74	90.96	89.44	92.55	141.97	93.70	133.25
Euro – Pacific (1497)	123.18	−2.7	100.84	97.28	97.24	99.27	−1.3	2.67	126.62	100.31	99.44	97.79	100.55	145.21	113.80	137.17
North America (636)	168.34	−0.1	137.81	132.98	132.92	167.10	+0.0	2.97	168.44	133.44	132.31	130.11	167.17	170.49	158.70	155.68
Europe Ex. UK (554)	119.63	−2.6	97.93	94.50	94.46	96.61	−0.4	3.51	122.78	97.27	96.45	94.85	96.95	132.98	119.63	119.75
Pacific Ex. Japan (242)	157.09	−0.8	128.60	124.09	124.03	140.90	−0.9	3.69	158.34	125.43	124.38	122.30	142.17	175.31	149.00	143.15
World Ex. US (1690)	124.52	−2.6	101.94	98.36	98.31	101.27	−1.2	2.68	127.91	101.33	100.47	98.79	102.55	146.91	116.18	139.01
World Ex. UK (1984)	136.48	−1.4	111.73	107.80	107.75	121.16	−0.8	2.51	138.41	109.65	108.72	106.91	122.20	150.58	127.21	140.60
World Ex. So. Af. (2151)	139.11	−1.6	113.88	109.88	109.83	122.42	−0.7	2.79	141.33	111.96	111.01	109.16	123.33	153.05	130.04	143.33
World Ex. Japan (1739)	157.07	−1.1	128.59	124.07	124.02	144.17	−0.2	3.44	158.82	125.82	124.75	122.68	144.41	165.40	153.20	151.66
The World Index (2212)	139.32	−1.6	114.06	110.04	110.00	122.73	−0.8	2.80	141.56	112.15	111.19	109.34	123.66	153.70	130.66	144.04

Latest prices were unavailable for this edition.

PAKISTAN

Pakistan aspires to be a robust export-oriented country and the main land-bridge to the emerging republics of Central Asia. But its hopes are clouded by its economic frailty and political uncertainty. **Alexander Nicoll** reports

Challenging perspective

HERE is one vision of Pakistan's future: a modern, deregulated, open economy, export-driven and strongly oriented towards the private sector, and the gateway to the emerging republics of Central Asia.

This is another: an inward-looking country with few true friends, beset by uncertainty over the role of the military in politics and of Islam in society, strangled by bureaucracy and poor infrastructure, and unable to address chronic weaknesses in economic management.

The extraordinary thing about Pakistan is that people can simultaneously entertain both views. The businessman who solemnly recounts the country's woes will then reveal ambitious expansion plans with barely a pause for breath. The visitor is tossed gaily between optimism and pessimism.

There is no dispute, however, about the need for action which existed when the government of prime minister Nawaz Sharif was elected in October 1990. The political system was in disarray. The economy was in dire need of reform.

Ms Benazir Bhutto, Mr Sharif's predecessor, had begun to reverse the public sector domination created by her father's nationalisation of big industry and banks in 1972. But her attempt foundered as President Ghulam Ishaq Khan removed her from office in 1990 after only 20 months in office, amid allegations of corruption.

Mr Sharif, a private sector industrialist who had been chief minister of Punjab province, immediately embarked on a headlong drive to open up the economy, which he continues to pursue with vigour.

His finance minister, Mr Sartaj Aziz, explains: "What we are doing is to bring about a major structural change to contract the government in those areas where it is not very good at doing things and shift it to those areas where it is supposed to do things and which it can do better."

Businessmen have seen the first results. Thanks to the elimination of licensing, they no longer have to waste months or years in trips to Islamabad, the capital, to seek approval (or the infamous No Objection Certificate) from powerful bureaucrats for any investment decision.

The government's programme to extricate itself from running industries is well advanced. It has sold 55 of 115 targeted industrial units, and *two of the big five banks*, and has begun to open up utilities to the private sector.

Most exchange controls have been lifted, as well as most barriers to foreign investment. "Our total package is now more liberal than almost anywhere in Asia," says Mr Aziz. The government has liberalised imports, started to cut tariffs, and deregulated interest rates and loans.

Accompanying these measures are ambitious plans to improve infrastructure with new highways, power plants and telecommunications networks and improved railways and ports.

The final plank of reform is to improve social conditions. Though Pakistan has enjoyed a healthy economic growth rate, levels of poverty and illiteracy are typical of those in much poorer countries, and the population growth rate is among the highest in the world. The government has announced a programme to improve drinking water, literacy and health care.

By the expiry of the government's term in 1995, Mr Sharif says: "We will have visible achievements which will speak for themselves. We will not have to launch an election campaign."

The overall reform programme is radical and rapid even at a time when many other countries are making *similar attempts* to slough off bureaucracies and bloated, loss-making public sectors. "It is a very bold step that Mr Sharif has taken, doing away with all the norms that we were used to," says Mr Yusuf Shirazi, chairman of Atlas Group, an industrial and financial services conglomerate.

Pakistan has a dynamic private sector, which ought to provide the basis for strong export-led growth as privatisation and deregulation take hold. Foreign investors, however, have proved slow to respond. Though the Karachi Stock Exchange has seen portfolio buying, direct investment has been limited mainly to foreign multinationals already familiar with Pakistan or smaller companies linked with Pakistanis overseas.

Several political and economic concerns prompt this caution. Pakistan's political institutions provide the basis for a stable democracy, but its record still gives rise to lingering uncertainty about who really rules the country. The elected government, itself a coalition of several parties, coexists uneasily with the other two members of the so-called "troika" – the president and the army.

The Hunza Valley, in the Karakoram range of north Pakistan, which contains the road to China

Mr Sharif, mindful that the previous government was dismissed by President Ishaq Khan, can never be totally sure of his authority, even though there is little serious opposition to economic reform.

There is little sign of any impending presidential intervention and the army, though playing an influential role behind the scenes, is thought unlikely to take direct political steps as it has in the past.

Apart from precluding cuts in defence spending, which accounts for over a third of the budget, the constraints upon the government create doubts about how vigorously it can attack some chronic weaknesses and stand firm against powerful vested interests.

For example, Pakistan has an astonishingly inefficient tax structure which leaves significant parts of the economy, notably farmers, effectively free of direct tax. The budget deficit is the most pressing economic problem, and the government has failed by a wide margin to meet targets agreed with the International Monetary Fund for its reduction.

Mr Aziz has begun a campaign to reduce tax rates but broaden the net and improve collection, but some businessmen feel this has produced inconsistencies without addressing the real problems. One economist asks: "Is the government prepared to impose costs on the private sector at the same time as giving them a lot of benefits?"

Other concerns are more obvious: bureaucrats, though their power is being reduced, still take what opportunities they can to slow things down; infrastructure will take years to build, though improvements have begun with, for example, a big rise in new telephone lines; rampant lawlessness in the southern province of Sindh, though reduced by a recent army crackdown, could be a worry when the army withdraws.

A further cloud over investment prospects is a ruling of the Islamic Shariat court outlawing "riba", which essentially means interest payments. Pakistan's banking system has already adapted domestically, developing alternative accounts and payment mechanisms, but there is doubt *about whether this is sufficient* to meet the court's ruling. International borrowings, such as vital aid flows from donor countries, would also be thrown into question.

Though the government's appeal against the ruling will be heard later in the year, Mr Sharif has shown reluctance to take a clear stand for fear of upsetting political support. He was elected on an Islamic platform and is linked on streetside hoardings with General Zia ul-Haq, who led Pakistan on an Islamic path during 11 years of rule until his death in an air crash in 1988.

The issue is the key test of the extent to which Pakistan wishes to follow a fundamentalist Islamic road. It appears uncertain: there are few signs of widespread popular support, but most politicians are unwilling to offend the mullahs.

Behind uncertainties over the role of the military and of Islam lies a more fundamental issue: what should be the thrust of foreign policy? One

☐ Continued on Page 3

● *A highland tribesman in the city of Peshawar*

IN THIS SURVEY

Finance minister Aziz faces cruel choices, says **Alexander Nicoll**

Time for drastic surgery

MR SARTAJ AZIZ, Pakistan's finance minister, finds himself in a dilemma. The most serious problem he faces is the budget deficit, which ballooned last year to 8.8 per cent of gross domestic product.

He is committed to reducing it, but is fearful of choking off the rapid economic growth which is necessary for the success of the government's radical reform programme. Consequently, he is uncertain whether to seek a new agreement with the International Monetary Fund to replace a Structural Adjustment Facility which expires this year.

A sharp drop in the deficit to below 5 per cent would risk a vicious circle of lower economic growth, lower tax revenues and worsening budgetary problems, Mr Aziz feels. Rather, he wants a benign circle of more investment, faster growth and higher tax revenues.

Though the government had forecast a fall to 5 per cent of GDP in the financial year which ended in June 1992, Mr Aziz says it has so far fallen to slightly below 7 per cent and that the immediate target is between 6 and 6.5 per cent. For the most recent shortfall, he blames low cotton prices, higher than expected oil prices, the world recession and the government's own economy-opening reforms, including cuts in tariffs and rises in interest rates paid by the government on domestic debt to banks.

The budget deficit is, however, a chronic problem attributable to grossly inefficient tax authorities, a bloated public sector and a lack of political will among governments to tax the private sector where it hurts.

Government spending is hard to control as 35% goes on defence

Most of the agricultural sector, as well as large parts of industry, pay virtually no direct tax. Customs duties make up a hefty 43 per cent of federal tax revenues, excise duties 22 per cent, sales tax 17 per cent and income taxes only 18 per cent. The entire tax system is plagued by evasion and corruption.

The deficit has been financed by external borrowing, putting a strain on Pakistan's external payments position, and by monetary creation. Inflation more than doubled to 12.7 per cent in the year to end June 1991, though it has moderated since.

This has been accompanied by a chronically low domestic savings rate, which has contributed to weak investment in infrastructure.

The recent worsening in the budget deficit was partly beyond the present government's control, resulting from lax spending controls before it took office, higher oil prices during the Gulf crisis, and delays in implementing new taxes.

A significant part of government spending is difficult for a finance minister to address: 35 per cent of current expenditure goes on defence and 27 per cent on debt service. As a result, what cuts there have been in recent years have tended to be in development spending – reductions which Pakistan can ill afford. However, there is scope to reduce spending on subsidies, on administration, and on financing the public sector as it shrinks through privatisation.

The most obvious answer to the deficit problem is to generate more revenue. Mr Aziz's goal is to do this by widening the tax base, increasing the efficiency of collection, and lowering tax rates to reduce the incentives for evasion.

Mr Aziz says direct income taxes on farmers would not bring in very much revenue, and that they are subject to indirect taxation. Meanwhile, he has resorted to some unusual taxes in order to bring companies into the tax net. Companies which were paying no tax are now being charged a ½ per cent turnover tax. All companies must now pay a tax based on their electricity bills. "It is presumed that your income is proportionate to the electricity you consume," says Mr Aziz.

Bank loans, though liberalised, are also subject to a new tax and this year's budget included new duties on exports – measures hardly designed to encourage new investment in export capacity.

Mr Aziz believes tax evasion will become less prevalent as the economy becomes more open. High tariff rates and import and foreign exchange restrictions have fostered heavy smuggling and a massive underground economy.

It is not yet clear whether Mr Aziz's efforts so far will address the structural budget problem. While battling the deficit, Mr Aziz can never forget the country's external payments position which, while it does not threaten to become critical, is certainly not secure.

Pakistan, which has a foreign debt of $22bn, depends on aid flows to finance its balance of payments deficit. Aid flows depend heavily on assessments of the progress of reform by the IMF and other institutions.

The balance of payments worsened to a deficit of about $2.8bn in the year ended June 1992, due to weak commodity prices and import liberalisation.

However, cotton-based exports have been showing good growth, and the reform programme has begun to attract foreign exchange into Pakistan from abroad. In coming years, development of new export capacity will require

All companies must now pay a tax based on their electricity bills

substantial imports of capital goods. Remittances from Pakistanis abroad provide a cushion. But foreign exchange reserves of $1bn, though stable, are not a very sound bulwark against any unexpected crisis of confidence.

Mr Aziz can take comfort from the relative stability of the Pakistani economy, which has shown healthy growth rates for many years and is likely to continue to do so, with GDP growing around 6 per cent annually, provided there is the necessary investment in new capacity, technology and infrastructure.

This is despite weak demand from export markets and moves to tighten credit, aimed to lower inflation, which have hurt industry. Inflation, after its jump last year, has fallen somewhat and shows no sign of running out of control. Agriculture has produced good growth in output and value added.

The economy is diversified, with an already large and dynamic private sector industrial base now growing rapidly as a result of privatisation. But the industrialists will need a consistent, effective tax structure and better infrastructure – including a better-educated workforce – if they are to drive Pakistan towards its goal of a modernised, open, export-driven economy.

Bureaucrats receive strong medicine of economic reform

A shock to the system

RAPID privatisation and deregulation are the central elements of Pakistan's economic reform programme.

Pakistan may have an advantage over countries undertaking similar changes in that the public sector mentality has been in the ascendant for only 20 years, since Zulfikar Ali Bhutto nationalised big industry and banks in 1972. A dynamic private sector provides a good base for reform.

Upon independence and partition in 1947, Pakistan embarked on an industrial policy under which the private sector was to take the lead in building a manufacturing base. The next two decades saw rapid growth in industry, so that it still accounts for a higher proportion of the economy than might be expected in a country of its income level. A robust private sector developed.

Mr Sartaj Aziz, finance minister, says Mr Bhutto's subsequent shift in direction resulted in "bureaucratic socialism", with overstaffing, politically controlled prices, and absence of the dynamism which comes from private sector risk-taking.

The classic result was loss-making public sector enterprises, over-regulation, low investment and run-down infrastructure, a low savings rate, a growth rate financed by excessive borrowing, and a chronic budget deficit. The economy was heavily protected by high tariffs and import restrictions.

The present thrust is to re-focus the government into providing the basis for growth, through investment in physical and social infrastructure, while rapidly shrinking its role in production and services. At the same time, it is attempting to remove many bureaucratic shackles on the private sector, to promote exports and foreign investment and remove barriers to the outside world.

The present thrust is for the government rapidly to reduce its role in production and services while laying the basis for growth by investment in social and physical infrastructure

The bureaucrats, accustomed to decisions being subjected to interminable committees and reports, can scarcely have known what hit them as the privatisation programme got under way last year.

Mr Saeed Qadir, a former general and minister under Gen Zia ul-Haq, was appointed to head a Privatisation Commission within weeks of Mr Sharif's election as prime minister. The new body, with only a handful of senior civil servants, began the process with the help of a report commissioned from a merchant bank by the previous government. A deal was struck with labour unions, providing "golden handshakes" for redundant employees of privatised companies after a year's guaranteed employment.

Soon, public sector units scheduled for privatisation were touting themselves in marquees set up outside the commission's office in Islamabad. It is responsible for selling the 115 units which were run by the ministries of industry and production, though not for utilities which are also being opened up to private ownership.

So far, 55 units have been sold by public auction for Rs10bn, with an additional Rs4bn of liabilities transferred. Of the 40 sold units whose transfers have actually been completed, a minority were profit-making. Companies being sold cover a broad spectrum, from tractors and textiles to cement and ghee, vegetable oil used in cooking. Some companies have been sold to their employees.

The government rejects allegations of corruption in the sales. "There is no concentration of wealth, no cartelisation, and no preference being given to any party," says Mr Qadir. In response to such suggestions about the early sales, the commission has opened bidding sessions to the press.

Two banks, Muslim Commercial Bank and Allied Bank, have been privatised, and United Bank and Habib Bank are to follow. In addition, new private banks have been permitted and nine have opened. Private housing finance companies have been allowed. Interest rates have been partially deregulated with the introduction of government debt auctions, replacing the requirements for banks to lend to the government at a fixed 6 per cent rate.

Public sector monopolies are being dismantled in energy, telecommunications, airlines, shipping, road construction and ports.

Of deregulation measures, the most significant is the removal of the need for the private sector to seek government approval for new investments. This has greatly reduced the drawbacks to industrial investment. Industry has also been boosted by cuts in customs duties on imported plant and machinery, tax holidays for new manufacturing units, and lifting of other restrictions on growth.

Among measures to promote exports, a public sector monopoly over cotton and rice exports has been abolished and textile export quotas have been opened up for sale. The government has reduced the maximum import duty (excepting some luxury goods) from 125 per cent to 90 per cent (though surcharges remain), eliminated licensing requirements for permitted imports, reduced the list of banned imports, and liberalised procedures for importing machinery.

Sartaj Aziz, minister of finance: privatisation is the key

This has been accompanied by the removal of most foreign exchange controls, though the rupee is not yet convertible. Pakistanis may now open foreign currency accounts in Pakistan and trade dollar-denominated bearer certificates. The regulatory incentive for residents to spirit money out of the country, and to keep it out, has been virtually eliminated.

Restrictions on foreign investors have also been removed. In most sectors, they are able to operate on a par with residents. They may own 100 per cent of equity and, in most cases, remit dividends and sale proceeds. *(Foreign investment is discussed on the facing page).*

Some of these reforms are taking time to work through the system. For example, imports which are supposedly liberalised still encounter bureaucratic obstacles.

The immediate scope for deep cuts in import duties is severely limited by the government's budgetary problems, with customs and excise duties accounting for the bulk of federal tax revenue. The government's unwillingness to address tariff reform more wholeheartedly has disappointed donor officials.

But the very speed of reform in other fields has aroused some concern. Mr Shahid Javed Burki, a Pakistani who heads the World Bank's China desk, warned in a recent lecture that "privatisation without attention to the creation of a regulatory framework within which the private sector must be obliged to work could create a very unhappy situation". Without such laws and institutions to ensure that they are observed, Mr Burki said, "it is inviting the kind of response from the people that produced the impulse to put the public sector on the commanding heights of the economy in the first place".

Alexander Nicoll

Foreign policy is in flux, says **Alexander Nicoll**

A changing world

PAKISTAN, created to form a home for the Moslems of British India, has spent the following 45 years focused on preserving the integrity of its borders. Preoccupation with India to the east and Afghanistan to the north-west has been the driving force behind foreign policy.

It has contributed to the sway held by the military in Pakistani politics. But it has also led Pakistan to bolster its security by seeking friends further afield.

However, the collapse of the Soviet Union has opened up uncertainties for Pakistan as for many other countries.

The struggle in Afghanistan helped Islamabad to forge close cooperation with the US to counter the Soviet presence. Washington is now much less interested in Afghanistan. It had also perceived Ms Benazir Bhutto, who cultivated close ties with the US, as a friend.

Since her dismissal as prime minister in 1990, the US has been suspicious of Pakistan's tendencies towards Islamisation and has cut off new military and economic aid because of Pakistan's nuclear programme. Even more ominously for Islamabad, the US has recently been improving its relations with India, Pakistan's arch enemy.

The reduced polarisation of world politics has also reduced the importance of bodies such as the Non-Aligned Movement, in which Pakistan has played a prominent role. But it has made no difference to its long friendship with China, with which it shares a mountainous border. As a sign of the continuing closeness, Pakistan's state airline is considering opening a new direct route to Shenzhen, the southern Chinese special economic zone.

As a nation originally defined by Islam, Pakistan has developed quite close political and economic relationships in the Middle East – it has a western border with Iran.

However, it has had to pursue a careful line in Middle East conflicts and also has to be conscious of tensions with its own Shiite minority. During the Gulf crisis, the interim government between those of Ms Bhutto and Mr Nawaz Sharif condemned Iraq's invasion of Kuwait and swiftly sent troops to Saudi Arabia.

As it embarks on a drive to modernise and open its economy, Pakistan is seeking a new identity and new friends.

Mr Sharif, the prime minister, has seized upon the Soviet break-up as providing Pakistan with the opportunity for a new foreign policy thrust. He is aggressively seeking to boost trade and political relations with the new central Asian republics, with which it shares proximity though no borders.

The new vision is of Pakistan providing the transport links and entrepôts for the developing nations of central Asia, which have plenty of raw materials but poorly-developed industry and infrastructure. Mr Sharif has already visited several of the five republics, and also played host: the Uzbek president was his guest at Pakistan's Independence Day celebrations last month.

It is an ambitious move, which might bring benefits to Pakistan. However, the new republics have plenty of competing suitors. A recent visitor to Uzbekistan found it full of Turkish businessmen. Some observers feel that the republics will prefer to throw in their lot with more European, secular states rather than one which is tending towards Islamisation.

Meanwhile, China is also busy developing economic relations with the emerging republics, opening up its Xinjiang region along the lines of its southern coastal areas. And the republics still have important practical ties with Moscow. Moreover, Pakistan's success in forging central Asian links will largely depend on peace in Afghanistan, through which new roads north must pass.

Pakistan viewed with dismay the violence in Kabul during August, in which at least 2,000 people died. Many in the government blamed the violence on the mujahedin leader Gulbuddin Hekmatyar, whom Pakistan had principally backed in the 13-year civil war.

Some in Pakistan, however, sympathised with Mr Hekmatyar's wish to expel from the Afghan capital the Uzbek militia force, led by Gen Rashid Dostum, which has been supporting the government of President Burhanuddin Rabbani. They felt that the government had not stood by its commitments to Mr Hekmatyar.

Always on guard: an Independence Day show of force by Pakistani-made T69 tanks in Islamabad

Pakistan had helped to broker the April Peshawar accord between rival guerrilla groups and since violence erupted has been seeking to patch a new agreement between them.

Though the Soviet threat has gone, Pakistan has several interests in a peaceful resolution in Afghanistan. It has been playing host to the guerrilla groups as well as to millions of Afghan refugees. It wants to stop rampant smuggling, including arms and drugs, over the border. It wants to establish the still unresolved line of the border. It wants above all to avoid a break-up of Afghanistan which could foment ethnic instability within Pakistan. And it wants a growth of trade.

Pakistan's most obsessive foreign policy problem, however, remains India, with whom it is in a permanent state of near-war, with the risk of nuclear arms being deployed if hostilities broke out.

As recently as 1990, movement of troops on both sides prompted the US to send an emissary urging restraint. Mr Shahid Javed Burki, a Pakistani who heads the World Bank's China desk, commented in a recent book*: "India and Pakistan continued to coexist in an unstable environment in South Asia, with their leaders not beyond risking war for short-term political gains."

The biggest cause of dispute is Kashmir, the predominantly Moslem area claimed by both countries but mostly controlled by India, which has 400,000 troops deployed there to keep insurrection under control. It says Kashmir is a domestic Indian problem. Indian and Pakistani troops daily watch each other nervously across the "line of control" which runs through Kashmir and there is frequent shooting.

The most positive sign for some time came in August, when senior officials met in New Delhi and agreed that India and Pakistan should hold further talks on Kashmir – though there was no sign of either softening its entrenched position.

Kashmiris appear unenthusiastic about being part of either India or Pakistan, and want a UN-sponsored plebiscite. Earlier this year, Kashmiri militants attempted to march across the line of control from the Pakistani side, but were turned back by Pakistani troops.

Mr Amanullah Khan, leader of the Jammu Kashmir Liberation Front, comments bitterly: "The only thing India and Pakistan agree on is opposition to the independence of the state of Kashmir."

* *Pakistan: The Continuing Search for Nationhood.* Westview Press, Boulder, Colorado.

Simon Davies looks at prospects for winning foreign investment

Soft-sell becomes harder

PAKISTAN now offers a more liberal package for foreign investment than any other country in Asia, according to finance minister Mr Sartaj Aziz.

With tax holidays and no restrictions on foreign ownership or foreign currency repatriation, the gauntlet has been thrown down to overseas corporations to ignore the exotic allure of the South East Asian export processing zones and come to Pakistan; so far they have shown little interest.

The country offers a buoyant economy, cheap labour force and a government commitment to privatisation, deregulation and development. But there are still numerous obstacles to be overcome before it can beat the aggressive competition for limited capital flows.

One impediment appears to be its desire to copy the blueprint for foreign investment set down by Thailand and China, instead of concentrating on its own individual strengths and admitting its not insubstantial weaknesses.

A local economist claims there are four major keys to bringing in foreign capital: the government's big initiative on privatisation and deregulation has to be seen to work; the government must develop a coherent strategy on how to facilitate inward investment; it has to be able to delineate and sell its strengths; and there has to be a nationwide commitment towards wanting foreign interest.

"The Pakistanis aren't very good at selling themselves", he argued. These are not insuperable problems, but they are not helped by the unrewarding complexity of doing business in Pakistan.

Japanese posted there complain of working in an alcohol-free and entertainment-free environment. While almost all overseas investors encounter an alien business culture, where the threat of Islamisation may have little real impact, it certainly serves as another psychological barrier.

But prime minister Nawaz Sharif's attack on so-called "red-tapeism", combined with the most aggressive privatisation programme to hit Asia, is undoubtedly the right way forward and it is already having some positive repercussions.

Mr Naseem Mirza, chairman of ICI Pakistan, says that under the previous regime he spent much of his time commuting to the capital Islamabad, because committee approval was required for everything. This has already changed.

ICI is making the most of the current deregulative environment. It is to spend Rs1bn on the expansion of its soda ash plant, which supplies material to the glass industry, and on its own power station, to protect itself from local electricity shortages.

Pak Suzuki, a joint venture between Suzuki and the government, controls more than 70 per cent of the local market and has recently expanded capacity, despite complaints over the government control of pricing. Suzuki is interested in buying out the government's stake and Toyota is setting up an assembly plant.

Foreign companies are also involved in developing the country's backward infrastructure. But these are all small gestures and go little way towards absorbing the 13 per cent of Pakistan's workforce that is officially unemployed, and providing a much-needed source of foreign income, to offset reliance on foreign loans.

At present, Pakistan has only one sizeable industry, textiles; but it is an industry where it has major advantages which could be further exploited through the use of foreign capital and technology.

Pakistan has the world's third largest cotton crop and a large and skilled workforce. This is mainly employed in spinning yarn, but the Government is providing incentives to encourage higher value added weaving and garment manufacturing, with reductions on export duties and indirect tax.

Foreign business could play an important and profitable role in this transformation. Agri-business is another potential target. It has been the major engine of economic growth, but could benefit from further western expertise.

So far, there has been a muted reaction to the new Special Industrial Zones. Seven more zones are to built along the new Lahore-Islamabad motorway; electricity, water, workers and efficient roads in these zones help to shelter foreign investments from Pakistan's infrastructural problems and instability.

But export-oriented businesses' only concerns are the cost of production, efficiency of transportation and political and economic stability of the production base; Pakistan has yet to prove itself a viable option under these criteria.

It has an average wage of around $100 a month and although in basic manufacturing industry, workers are paid as little as $70, this is still higher than other Asian export processing centres such as China and Indonesia.

Industrialists argue that Pakistan's attraction must be for higher value added production, aimed primarily at the local rather than export market place. The country's official GDP per head is only $415, but the true figure could be double that, once the cash generated by drugs, arms and unregistered cottage industries has been factored in.

Openings in Asia

☐ Continued from Page 1

reason for the influence of the military is that Pakistan remains in a state of constant alert on its eastern border with India, and faces continuing turmoil – in which it is seeking to act as intermediary – in Afghanistan along its long north-western border.

Though Islamabad has at times had close relations with Washington, they are currently cool, with the US Congress barring new direct aid because of Pakistan's nuclear programme.

Mr Sharif has begun a drive to open political and trade links with the new states of central Asia, but this will depend on an enduring peace in Afghanistan, through which trade routes must pass.

In the longer term, tensions with India are perhaps the greatest impediment to progress.

Solution of the Kashmir problem would allow Pakistan and India to channel large-scale resources away from defence, to target new export markets, and to move ahead unfettered by the problem which has dogged them both since birth. That is a massive challenge for Mr Sharif, his Indian counterpart P.V. Narasimha Rao, and their successors.

Pakistan has chronically failed to grow enough wheat for all its people, writes **Farhan Bokhari**

Ever more mouths to feed

AGRICULTURE remains the backbone of Pakistan's economy. But attempts to make the country self-sufficient in food grains continue to fall behind national needs, creating new requirements for wheat imports.

This year alone Pakistan will import 2m tonnes of wheat, adding to the burden on budgetary resources.

Agriculture employs 51 per cent of the workforce, only 9 per cent down from 60 per cent in 1964. Agriculture-related products earn up to 70 per cent of export revenues.

In spite of difficulties in raising food grain production, agricultural output last year grew by 6.4 per cent and made a 26 per cent contribution to GDP. Growth was up from 3 per cent during the 1989-90 fiscal year and 5.1 per cent in 1990-91.

Cotton, wheat and rice account for almost 70 per cent of overall crop output value. The remainder is sugar-cane, fruits, vegetables and other products.

Cotton output grew by 35 per cent last year largely due to incentives for farmers, while wheat and rice production were virtually unchanged.

Last month, the government announced new incentives for cotton growers by removing export duty.

The government also plans to increase productivity in crops such as rice and wheat, by raising government-controlled grain prices for farmers as well as making arrangements to provide better quality seeds and efficient technology.

Mr Majeed Malik, agriculture minister, says: "The price of wheat as compared to the inputs is such that it is becoming less and less a profitable crop and therefore people are shifting to other areas."

Cotton output rose 35% last year but wheat and rice production was almost unchanged

Mr Malik says the government plans to set up a new framework which would allow technology to be taken to the doorsteps of the farmer, as one way to encourage the use of better techniques for improving output. Agricultural experts have argued that an important obstacle to making farmers use better techniques is that many of them are located in inaccessible areas.

Mr Malik disagrees with critics who argue that low literacy rates would make it impossible to introduce high-tech methods.

"Although the rate of literacy is low, even the most uneducated farmer is very keen to absorb technology. He doesn't have to read a book, he has to be told on radio by experts," he says.

The government of prime minister Nawaz Sharif claims to have broken fresh ground in resolving important long term problems. Last year, the country's four provinces and the federal government resolved a 70 year long dispute over the distribution of water from the Indus river, one of Pakistan's main sources of water supply for agriculture.

Eventually, the provinces expect to save between 10 to 13 MAF (million acre feet) of water, which was earlier flowing out to the sea in the absence of a sharing formula. In December last year, the government also announced a new package of incentives to improve crop yields.

However, improving the performance of agriculture remains difficult. A continuing problem is a high population growth rate of almost 3.1 per cent.

In addition, the country is still faced with the difficult issue of taxation for farmlands. Agricultural incomes are exempt from direct taxation, partly due to resistance from a strong lobby of politically influential landlords. The resistance has received additional momentum from the argument that taxation would be unfair unless the prices for crops are set according to international market rates rather than remaining under government control. Mr Malik says the farmers have a point because of low profitability in the sector.

The farmers may be working their land and water resources close to the limit

But he also leaves the door open for generating more resources, and says that by the end of this decade new revenues may have to be generated from agriculture which may "not necessarily be income tax in the same sense".

Privately, some senior officials concede that this is among the most difficult issues for agricultural policy makers. While the land-owners' lobby is influential, the government is also under increased pressure from local industrialists and businessmen who have demanded taxation for agriculture to give the same treatment to this sector as other areas of the economy. Eventually, a decision on this may determine the profitability in the agricultural sector.

Finally, problems related to the pattern of agriculture have also constrained growth potential.

According to estimates by Western development experts, Pakistan's agriculture sector has been operating close to its limits as far as quality of land and water resources are concerned.

But the alternative of intensive farming to increase agricultural output requires resources which are not readily available.

Textile makers recognise their flaws, and how to mend them

Good designers and technicians needed

FARHAN BOKHARI reports that even if the textile industry were to benefit from a recovery in world trading conditions, it would still be essential to raise the quality of its products

MANY Pakistani businessmen believe their country is set to play a greater role in the world textile market. But they are also concerned about dull prospects, at a time of worldwide recession and the need for Pakistani exports to become more competitive.

Pakistan's cotton production rose by 35 per cent last year, (from 9.6m bales to nearly 13m) largely due to fresh incentives for farmers.

There has also been a significant rise in the spinning capacity. Pakistan had 3.8m spindles five years ago. It now has 6.2m and could have 7m next year.

Cotton related products are of increased significance for the economy, accounting for almost 58 per cent of exports. The higher cotton output has convinced many businessmen that there is a big potential to produce more higher value items, including clothing. However, there is still concern at falling profitability due to weak demand for yarn exports.

Many leading textile producers have become increasingly aware not only of the need to move into higher value goods, but of the problems associated with it.

Pakistan's leading representative body of textile manufacturers, the APTMA (All Pakistan Textile Mills Association), has recently demanded fresh measures to increase profitability, including the removal of a local excise duty. Its members have also decided to cut back production by 14 per cent to cut lower surplus stocks.

Mr Tariq Saigol, chairman of APTMA, voices long-term optimism but says that "at the moment, we are faced with imbalance in supply and demand; we have too many goods and not the domestic market which is big enough to absorb the increase".

According to the APTMA, Pakistan produces approximately 1.3bn kilos of yarn annually, of which 600m kilos are consumed locally and the remainder available for export. The association estimates that at present, there is a surplus of between 15 to 25 per cent.

The industry's problems were recently highlighted in a study by the Japanese international development agency, based on a year long examination of growth prospects.

The study is reported to have found that in the eyes of many US importers Pakistani garments are priced and of low quality with late delivery times.

The report warned that other countries such as Bangladesh, Mauritius, Morocco and Sri Lanka are catching up quickly with Pakistan, thanks to their own rapid expansion and growth. It suggested that Pakistan's government and textile industry should try to satisfy the garments trade.

Apart from market conditions, the industry also suffers from a shortage of technically trained manpower and lack of good design. Time and money for training are needed to rectify both problems.

The domestic market has a limited exposure to imported fashion garments, which would influence the designing of marketable export goods.

The future of Pakistan's textiles industry will depend partly on international economic conditions.

But even if it benefited from improved world trading trends, it would have to raise its own standards.

Bringing in the bales of cotton: harvests have grown due largely to financial incentives to farmers

■ Privatisation in action: **Farhan Bokhari** takes a look at National Fibres of Karachi

Expansionist plans reassure the workers

In the next two years, NFL is to triple its capacity for polyester fibre and filament yarn, thereby helping to sustain employment for its workforce

A WIDE variety of industries and services are being offered for sale under the government's privatisation programme.

Among the smallest and least profitable disposals are plants that make *roti*, a thin round traditional flour bread, and which had to be closed after making enormous losses.

Larger candidates for disposal include plants whose products include cement, ghee (traditional edible oil extract used for cooking), motor vehicles and tractors.

The common motive for selling them is to improve output in the public sector where the average industrial profitability has been only 1.5 to 2 per cent per annum.

As the programme only began last year, it is too soon to compare the performance of these privatised companies with their previous record.

Small units such as *roti* plants are to be broken up and sold only for their real estate value. But some larger factories have been bought by investors who are now preparing to expand them.

One example of a profit-making company with prospects of growth is the Karachi-based National Fibres Ltd (NFL), 51 per cent of whose shares were sold in February. It makes polyester fibre and polyester filament yarn used for manufacturing cloth by local textile manufacturers.

Last year, NFL declared pre-tax profit of Rs177m (£3.9m), on total sales worth Rs888m. The pre-tax profit this year has not been announced but sales have touched Rs900m, says Mr Mohammad Jawaid Anwar, *NFL's general manager*.

The company was sold to the new Schon group for Rs760m (£16m) after bids were received in an open competition. Schon group's other investments include an oil refinery, an air charter company, yarn spinning and stock trading. Under the terms of the sale, Schon paid 40 per cent of the dues up front, and the remaining 60 per cent are due to be paid over three years.

More expansion is planned to meet demand. Over the next *two years, the company plans* almost to triple its capacity of polyester fibre from 12,000 tonnes a year to about 34,500 tonnes and filament yarn from 3,000 tonnes a year to 5,000 tonnes in the same time frame.

The expansion in capacity could increase sales to Rs3bn a year, which would not only boost profitability but finance a rise in wage levels

A striking feature of the whole privatisation programme has been the unexpected lack of resistance from labour unions.

NFL employs 900 workers and officers, in keeping with the government's condition that there should be no lay-offs in the first 12 months after purchase. A labour package agreed last year allowed for compensation if personnel were asked to go within that period. The government also agreed to pay allowances to unemployed workers for up two years after their dismissal.

As a result of NFL's expansion plans, however, the company would need to raise its workforce to 1,050 within the next two years, leaving little room for lay offs. Mr Anwar says: "We will be able to absorb our workers in the expansion. We have not laid off anyone so far."

A new labour contract was signed in May, backdated to the beginning of the year. Under it, the company agreed to a 20 per cent average wage increase.

However, Mr Anwar expects *the expansion to push sales to* between Rs2.5bn and Rs3bn after the company's expanded production capacity. That would not only raise profitability but finance a rise in wages.

TRANSPORT MASTER PLAN

To new horizons

SIMON DAVIES on the future of Pakistan's roads

IT IS an inspiring goal. Raw materials from the Central Asian republics would be transported south through Pakistan's newly-modernised road system to industrial processing zones and onwards to efficient privately-owned container terminals in Karachi and Port Qasim.

The political and geographical impediments to this strategy are enormous. Central Asia is separated from Pakistan by three of the world's highest mountain ranges, while Afghanistan's political maelstrom and Pakistan's own law and order problems spell difficulty in the fulfilment of this role.

But it is a vision which is driving a vital overhaul of Pakistan's antiquated transportation system, after decades of neglect.

"There is a dire need of an effective communications system in Pakistan, especially now. We are anxiously looking forward to connecting the Central Asian republics with our roads. They are also in need of our seaports", said federal communications minister Mr Azam Khan Hoti.

One of the major problems affecting transportation in Pakistan is the link between the southern port city of Karachi and the growing industrial centre of Lahore. Express trains have been held up by dacoits (local bandits) with rocket launchers, and vehicles now wait until they can form a convoy with military escort, before they undertake the treacherous journey. The impact was demonstrated in a 54 per cent fall in the number of railway passengers and a 52 per cent drop in freight, in the year to March 1992.

The government has decided to focus its efforts on the road system, coming up with a five year programme which will cost Rs73bn. The main north-south highway is to double its existing two lanes. An alternative north-south route, the Indus Highway, is being improved, but, most significantly, work has started on a motorway connecting the Frontier capital of Peshawar with Karachi, via Islamabad and Lahore.

Given its existing debt of $25bn, Pakistan has tried to entice foreign capital to build the roads on a Build-Operate-Transfer (BOT) basis. Under the new deregulative regime of prime minister Nawaz Sharif, foreigners had been encouraged to take over the entire project.

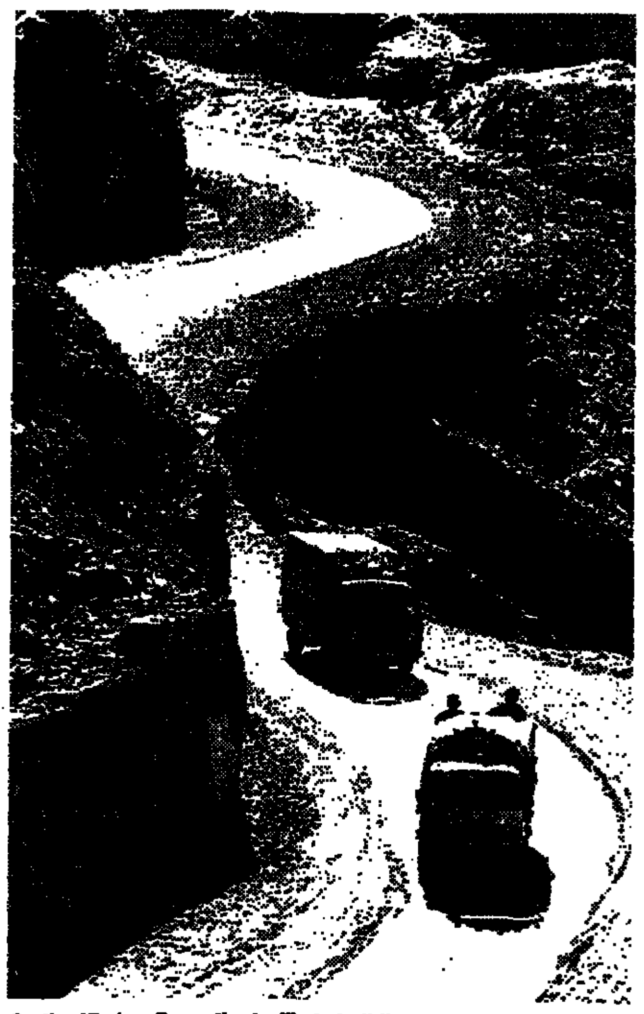
Korean construction company Daewoo is to build a 340 kilometre six-lane highway, running from Islamabad to Lahore. Progress has been made, amidst an uproar over the Rs23bn cost, the government's debt burden (Daewoo will contribute only 40 per cent of financing), and accusations of corruption.

It will be a toll road and the Government hopes this will cover the debt financing. If successful, it would help provide a framework for other infra-structural projects. Meanwhile, corporations remain concerned over political stability and the murky issue of Islamic banking regulations – it is clearly of concern for a company to lend money to a government which may prohibit interest payments.

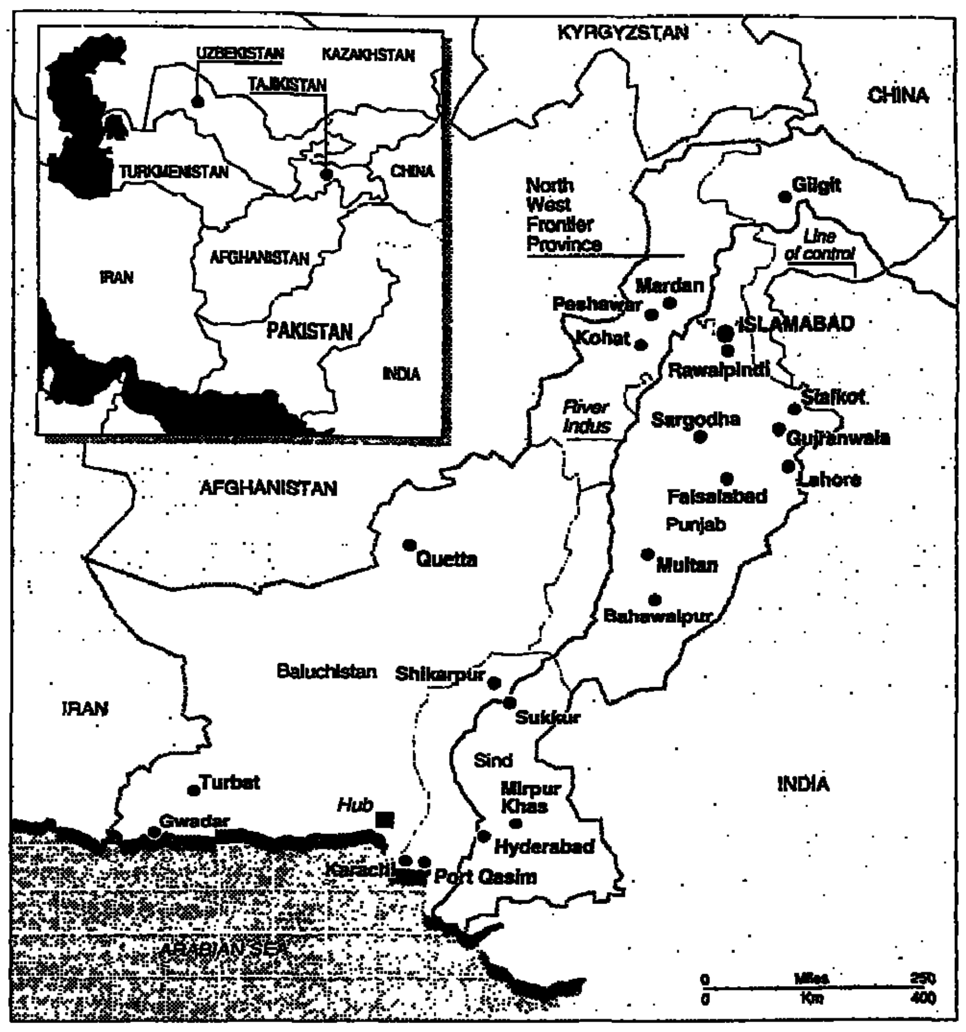
The motorway will create an infra-structural corridor through the economic heartland of Pakistan and should give a boost to industrial investment in the north. It is due for completion in December 1994.

The rail system has caused more difficulty for the government. It is over-staffed, inefficient and draining Government funds, making its attractions for the private sector somewhat limited.

The Government hopes to create rail links with Afghanistan, but is unlikely to foot the bill. At present, it is looking at selling land and privatising sections of the organisation to pay for its revival. But it will take a long time before this network becomes a key link for containers moving south to Karachi.



On the Khyber Pass: the traffic is building up



Karachi is the largest port city in the Indian Ocean. It has been government-run and industrialists complain of the cost and inefficiency. The Government has reacted by privatising many of the operations. It is to set up a new container terminal on a BOT basis, while the two other ports, Port Qasim and the country's new deep water port project at Gwadur, will be primarily controlled by the private sector.

Local newspapers suggest Karachi could become the Rotterdam of Asia. The presence of an unruly Afghanistan blocking easy access to Central Asia is a problem. But there is no doubt that the heavy expenditure on the transport system will finally make viable the government's hopes of introducing export industries into Pakistan.

Under the present system, one industrialist complained that it cost more to process cargo through Karachi port and then freight it to Lahore than to ship it to Pakistan from the Gulf of Mexico.

Private money is being mobilised to build up a modern telecommunications system

Frustrations of a land without telephones

WITH one of the lowest ratios of phones among developing nations, combined with a burgeoning national debt, the Pakistan government plans to get somebody else to fund an aggressive expansion programme.

In June 1990, there were only 843,000 lines for a population of 117m. The government now hopes to have more than 2.3m lines in operation by March 1993.

But it is highly critical of the telecommunications management: by 1991 it had built up a 70,000 connection back-log, with individuals waiting up to five years for a phone.

Part of the solution is to encourage private operators to broaden the service. But the entire Pakistan Telecommunications Corporation (PTC) is also to be auctioned to the highest bidder, with no restrictions on nationality.

Outside capital is being attracted under a scheme called Build Lease and Transfer (BLT), whereby an outside party installs a set number of lines at a fixed price.

Once the revenue from the lines pays off their cost, the system is returned to PTC. It expects an eight-year pay-back, against a 20 year life for the system. Alcatel, Ericsson and Siemens are to install 500,000 lines by the end of 1993 under this BLT scheme, and other contracts are being negotiated.

Mobile telecommunications are also being offered to the private sector. Cable & Wireless and Millicom have both set up systems in a market they believe should accommodate 35,000 subscribers, within five years of the 1991 launch.

The operators have had strong initial response, aided by the inadequacy of the existing fixed line system – it could take three years to get a fixed phone and only 24 hours to get a mobile unit.

But mobile communications is to become more competitive following the issue of a third licence to a local group, which is holding discussions with British Telecom and Hutchison Whampoa. It was issued despite an apparent understanding that, to avoid excess competition, there only be two licences.

There have also been complaints over facilities to link the mobile system with the fixed line network, with operators objecting to the level of rigid bureaucracy at PTC.

However, even at PTC the pace of reform has been rapid. Bear Stearns have been appointed to advise on its privatisation and the government is adamant it will sell its entire stake in early 1993.

It seems likely to prove one of the more attractive Government offerings, given the potential returns on assets achievable by phone companies. It has already been launched as a government-owned corporate entity, to help speed up the decision-making processes within the group.

There were initial doubts about the sell-off, due to concerns by the army at possible bugging by a foreign operator, but these have been allayed and the tendering procedure should start this month.

There is no argument about the inadequacy of the existing operation, which has suffered from over-staffing and an excessively bureaucratic management. It currently employs 54,000 people. Under the privatisation scheme, employees will have a one year guaranteed contract with the new company, and will then receive a golden hand-shake if forced into retirement.

Because of over-staffing in the public sector this could prove costly. But the pace of expansion of PTC should limit the impact of lay-offs.

Privatisation has been a useful method of sucking capital from the underground economy and a number of international telecommunications groups could link up with Pakistani partners to bid for the system. AT&T, British Telecom, Cable and Wireless and Singapore Telecom are said to have shown interest.

But the government will first have to still concerns that any future regime might scrap foreign ownership of the phone network.

Simon Davies

The Tarbela hydro-electric dam on the Indus River: low rainfall could leave a 15 per cent shortfall in power supply

Farhan Bokhari on the widening quest for energy sources

Power for the people

POWER CUTS periodically show that Pakistan cannot meet the energy needs of a rapidly growing consumer market and industry. While the government has given fresh incentives to set up factories, providing investment in transportation and energy is also needed.

In energy, Pakistan is seeking private sector investments in new electricity projects and oil and gas production. Industrial entrepreneurs are allowed to set up their own generation plants but that adds to the cost of new projects.

Electricity generating capacity is projected to rise to 9,356 megawatts by the middle of next year, but demand is expected to rise to 11,000 MW by 1995. The supply is currently estimated to fall 10 to 15 per cent below demand depending on the output of hydro electric schemes which rely on rainfall.

The government has let the private sector set up independent power plants to help meet the shortfall. Fresh measures have also been announced to increase production of petroleum, as the country produces 65,000 barrels of oil per day but needs to import about 170,000 b/d.

Last year fresh incentives were introduced to stimulate exploration and refining. The government has promised to process applications for exploration licences within three months of submission. In the past, approvals have taken up to three years.

Mr Sartaj Aziz, the finance minister, hopes there will be a surge in private power projects given the size of the country's population. "In this expanding market, efficient generation of power is required. With privatisation, we expect to get the investment. Very few markets are that large and offer opportunities for investment", he says.

Pakistan also sees opportunities for importing power, oil and gas from the newly independent central Asian republics and Afghanistan. An agreement has been signed with Tajikistan for the supply of 1,000 MW for which new transmission lines will be built.

Imports of gas from Afghanistan and Turkmenistan will also be studied, and recent oil discoveries in Uzbekistan raise the possibility of importing oil from that country.

All these proposals are fraught with difficulties, however. Energy investments will be repaid only in the long term. Although the population is rising, prosperity will also have to rise to ensure a bigger energy consumption.

In spite of the inducements *for oil and gas exploration*, some businessmen believe that crime and violence, especially in remote areas of the southern province of Sindh, are a barrier to new exploration projects.

The government has said it will set up a special force to protect oil installations, but it remains to be seen if that will reassure potential investors.

Prospects for importing energy from central Asia depend on future events in Afghanistan. Pakistani officials who support the country's central Asian initiatives argue that the intra-mujahideen infighting in Kabul is likely to die down in the next two or three years, the time frame needed to begin establishing some of the projects.

But no-one knows how long it will take before peace and stability are restored to Afghanistan. A durable peace there may be the key to Pakistan's central Asian strategy *and its ability to draw on that* region to meet its energy needs.

☐ HUMAN DEVELOPMENT

Near the bottom of the world table

PAKISTAN'S economic growth rates, though at times impressive, have not helped to improve the quality of life of many of the country's 117m people.

It was the world's fifth fastest growing country during the 1980s. But it came 120th among 160 countries in the UNDP's human development index.

*Some of the individual indi*cators for human development are depressing. The government estimates that:

- only 34 per cent of adults are literate;
- public expenditure on education was 2.3 per cent of GNP last year, significantly below the 3.7 per cent average for developing countries;
- only 40 per cent of children of primary school age are enrolled in schools;
- 52 per cent of children suffer from malnutrition and only 55 per cent of the population has access to medical care.

Foreign contributors of financial and technical assistance are concerned that conditions for women are worse than for men

Conditions for women are worse than for men. This has been a particular source of concern for foreign aid donors and development experts. To counter this, the federal and provincial governments have committed Rs53bn (£1.15bn) *over the next three years to a* Social Action Programme to improve the indicators.

"We feel that we need to have an accelerated programme so that lost time can be made up", says Mr Sardar Asseff Ahmed Ali, minister of state for economic affairs.

Under the programme's targets, literacy is projected to rise to 50 per cent from the present 34 per cent. In addition, there should be improvements in nutrition, primary health care, family planning, rural water supply and sanitation. "This will be the biggest quantum jump in Pakistan's history in the social sector", says Mr Ali.

Despite the programme, there is still concern at some of the obstacles in the way of improving social welfare, especially the high population growth. The present 3 per cent growth rate is among the highest in the developing world. In addition, some developmental experts are concerned that initiatives for improving the status of women can only succeed if more women hold public office.

At present, there are only two women members (Benazir Bhutto and her mother) in Pakistan's 217 seat lower house of parliament and one among the 87 upper house legislators.

Prime minister Nawaz Sharif's government plans to introduce a special *constitutional* amendment which will reserve 20 seats for women in the lower house, Mr Ali says. Some developmental experts argue that more women members in the parliament may in turn *strengthen the women's rights* lobby, putting more pressure on the government to give closer attention to their development. On this and other *areas of social programmes*, the next three years will be an important test of Pakistan's ability to match its quality of economic growth with the quality of life for its people.

Farhan Bokhari

KEY FACTS

Area	796,095 sq km
Population	*117.0 million*
Head of State	Ghulam Ishaq Khan
Currency	Pakistani Rupee
Average Exchange Rate	1990 $1 = 21.71 PRs
	1991 $1 = 23.80 PRs

ECONOMY	1990	1991
Total GDP ($bn)	39.7	42.7
Real GDP growth (%)[1]	5.3	6.5
Components of GDP (%)		
Private Consumption	71.7	71.9
Total investment	18.6	18.3
Government Consumption	15.0	13.5
Exports	14.7	15.4
Imports	-20.1	-19.2
Consumer prices growth[1]	6.0	12.7
Ind. production growth[2]	6.3	6.2
Reserves minus gold ($bn,Dec).	296	527
Narrow Money growth[1]	17.3	20.2
Money Market rate (% pa,avg)[3]	7.3	7.6
Govt Bond Yield (% pa,avg)[3]	8.0	7.9
Total external debt ($bn)[3]	20.7	22.3
Debt service ratio (%)[4]	23.7	23.7
Govt. deficit as % of GDP	7.1	6.4
Current Account Balance ($bn)	-1.9	2.1
Exports ($bn)	4.9	5.8
Imports ($bn)	7.4	8.3
Trade Balance ($bn)	-2.5	-2.5
Main Trading Partners (%)[5]	Exports	Imports
EC	29.4	33.2
USA	11.4	11.2
Japan	8.0	14.8
Germany	8.4	8.0
UK	6.9	5.1
India	0.7	0.5

Notes: All figures are on a fiscal year basis 1990/1991 and 1991/92 except where otherwise stated.
(1) Percentage growth over previous fiscal year.
(2) Percentage growth over previous calendar year.
(3) Calendar year basis.
(4) Total debt service as a percentage of exports, calendar year.
(5) Percentage share by value in 1991.
Sources: IMF, World Bank, Asian Development Outlook, Datastream, EIU.

Cash for power should soon start flowing, says **Frank Gray**

Good news from Hab River

THIS month's ground-breaking ceremony at Hub Chowki for the $1.7bn *Hab River* power project is expected to switch on a burst of foreign investment in electricity generation projects throughout Pakistan.

For the government, which has embarked on one of Asia's more ambitious institutional restructuring programmes, and for Pakistan's would-be electricity consumers, this will not be a moment too soon.

Pakistan has just 8,312MW of total installed capacity, 6,857MW under the Water and Power Development Authority (WAPDA) and the balance under the Karachi Electricity Supply Corporation, both of which are due for shake-up in the 1990s.

The figure is far below western standards, which indicate that countries of 100m people or more should have about 80,000MW-100,000MW of electricity supply capacity.

According to water and power ministry officials, at least 10 private sector power projects have been on hold during the prolonged talks over Hab River.

Negotiations for the 1,292MW oil-fired power scheme had been going on for four years, with the deal having tentatively been wrapped up twice before.

This time, representatives of Xenel Industries, the Saudi-based chief sponsoring company for the build-own-operate (BOO) scheme, and of the water and power ministry and WAPDA firmly believe that the agreement formally signed in early July sufficiently allays all fears and clears the decks for an imminent construction start-up, with power from the first of four 323MW units to be generated within 40 months.

Because Pakistan opted for an oil-fired power station, the project was subjected to a comprehensive World Bank environmental study, requiring stringent environmental controls to meet the Bank's criteria.

Pakistan opted for oil because of its proximity to the Gulf. Under the deal, HubCo will lift 1.5m tonnes of oil a year from the Pakistan State Oil Company in a deal worth $150m a year.

When completed, Hab River will boost Pakistan's power generating capacity by some 15 per cent.

It will be Pakistan's first private sector power scheme. The complexity of the financial structures put into place by the private sector and by the World Bank should bode well for other entrepreneurs seeking to take advantage of Pakistan's liberalisation programme. They will now have a formula from which to work in pursuing their own deals.

Under BOO, the sponsors will own and operate the project indefinitely. In effect, the Hab River scheme becomes an independent company generating electricity and selling it into the national grid.

The managing company being set up to run the scheme is the Hab River Power Group (HubCo). It is the intention of the sponsors for HubCo to have a widely-based public shareholding. It has been registered as a company and share trading will eventually take place on the Karachi Stock Exchange.

The project will be financed through the sale by HubCo of electricity, priced at commercial rates, to WAPDA. The notional start price is Rs1.36 (about 5.5 US cents) per kilowatt hour.

This has escalator clauses built in to take account of rupee devaluation, inflation and a variety of other factors that could affect electricity prices. The agreement runs for 30 years, considered to be long under normal BOO arrangements (the ideal is between 10-15 years, according to most experts).

The most recent impasse was caused by the emergence of Islamic (interest free) banking as a national issue. The imposition of Islamic banking rules temporarily scared off the commercial western banks invited to part-finance the scheme.

The breakthrough came recently when the Pakistani authorities and HubCo representatives were able to formulate an implementation agreement guaranteeing the protection of the bankers' investment in the scheme, no matter what happened on the Islamic banking issue, which is now before the national Supreme Court.

The two other elements of the tripartite accord were the power purchase accord, covering the commercial tariffs at which HubCo will sell power to the national grid, and the fuel purchase agreement, covering deliveries by the Pakistan State Oil Company of imported oil needed to run the power station.

All those involved in the talks agree that the deal would not have been possible without the World Bank, which helped structure the deal and created some innovative forms of specialist finance to kick-start the agreement. These included the Private Sector Energy Development Fund (PSEDF), set up to provide seed finance at long-term commercial rates (but with up-front grace periods) to private sector interests seeking to invest in the project. The PSEDF will provide about one-third of the commercial bank financing.

Another facility is the the Enhanced Co-Finance Operation (ECO), another World Bank invention specifically for Hab River, which will help protect the commercial banks against sovereign risks in case of failure by the government to comply with its side of the bargain. As it now stands, commercial bank financing aims to supply about $630m to the project.

The banking consortium comprises the Bank of Tokyo, Crédit Lyonnais of France, Citibank UK, and Sakura Bank of Japan. Union Bank of Switzerland was involved in the consortium, but last week confirmed it was withdrawing because of "a strategic decision not to invest in fossil-fuelled projects".

Other elements of the financing include a Pakistan bond issue of $100m; HubCo and others equity investment totalling $243m; local equity of $188m and offshore backing from aid agencies breaking down as follows: PSEDF ($415m); Japan Export Import Bank $120m); World Bank (IBRD) $240m; Japan's Miti $70m; Sace of Italy $200m; France's Coface $41m and the Commonwealth Development Corporation $12m.

In addition to Xenel, the prime sponsor, co-sponsors will include Mitsui & Co of Japan and British Electricity International of the UK.

Mitsui also will be the prime contractor, while BEI will operate and maintain the complex.

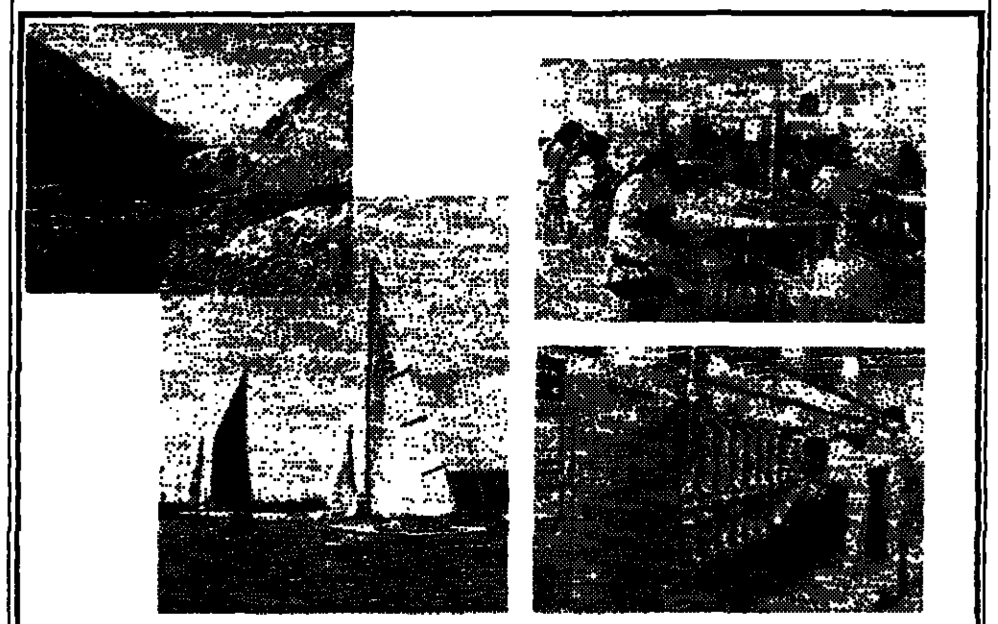
The US firm of K&M is the engineering consultant and was prime mover in the contract negotiations.

Other key equipment subcontractors are Campenon Bernard of France (civil engineering); Ansaldo of Italy (turbines), and Ishikawajima-Harima Heavy Industries of Japan.

The deal has enabled HubCo to confirm the appointment of Mr Kenneth Fergusson as HubCo chief executive officer, under the chairmanship of Mr Mohammad Alireza, who is also chairman of Xenel.

Mr Fergusson, born in 1938, spent the early part of his career with ICI and RTZ, studied at Imperial College and Harvard Business School and was director-general of the European Transonic Windtunnel in Germany and a managing director of the London Dockland Light Railway.

☐ *Frank Gray is editor of* Power in Asia, *a Financial Times energy newsletter*.



Simon Davies on the change of mood at the Karachi stock exchange

When the bubble had to burst

"BUBBLE UP" says the slogan on a hoarding outside the Karachi Stock Exchange.

It advertises a popular soft drink but also captured the stock exchange's mood at the start of this year.

Since then, however, political uncertainty has deflated of the market's effervescence and the street outside is no longer thronged by speculators.

With a new political leader whose interests appear to lean solely towards the business community, the crowds could have been forgiven for expecting the stock market boom to continue.

The corporate sector is likely to see 20 per cent earnings growth this year, and the number of foreign brokerages showing interest might have suggested another ingredient for success in a largely illiquid market.

Instead, share prices have floundered and foreign institutions are having second thoughts.

The latest crisis in the market resulted from an important part of the government's privatisation programme, the Rs2.05bn public offer of Sui Northern Gas, which was only 15 per cent subscribed and will create a substantial overhang.

The causes for this slump in confidence which left the KSE100 index down 32 per cent in the first eight months of the year, were all apparent during its boom in 1991.

Pakistan has long had a law and order problem, leanings towards fundamental Islamicism, political instability and an inadequate infrastructure.

But the government appears to be at least making head-way in creating solutions to these difficulties and there are few signs that prime minister Nawaz Sharif's tenure is about to be rudely curtailed.

The one positive factor in the current down-turn is that it has enabled the stock market to sort out the usual teething problems of an institution which emerged from decades of apathy and attracted millions of foreign dollars in 1991.

The market capitalisation increased by 314 per cent between December 1990 and June 1992 to a total of Rs221.38bn and in the first six months there were 46 new listings which raised a total of Rs3.8bn.

Dealers on the Karachi stock exchange floor: screens are hard to find and trading is still carried out by open outcry

In spite of this barrage of new paper and investor interest, nothing had been done to update the stock markets' registration and settlement system. Initially, foreigners were obliged to register shares in a process which involved the signing of thousands of certificates and a delay of up to 90 days, during which the scrip could not be traded.

The downturn has enabled the Exchange to attempt to sort out the teething troubles which are natural in a body emerging from decades of apathy and which last year attracted millions of dollars

The Corporate Law Authority (CLA), the stock market regulator, has reviewed the rules, allowing stock to be registered in street names, so that it need not be re-registered with each transaction; and the time-lag has now been reduced to 45 days.

In addition, the IFC, Citibank and Pakistan's three exchanges, in Karachi, Lahore and Islamabad, are working together on a central depositary system, which should be introduced in early 1993.

Mr Mian Mumtaz Abdullah, chairman of the CLA, said his priorities for developing the market were computerisation of trading, setting up the central depository and ensuring greater transparency.

At present, the trading system is on an open-outcry basis, on the frenetic floor of the stock exchange.

Trades are marked manually on a board, but most sizeable transactions are negotiated outside the market, so transparency is lacking.

There is not even a computer link between the three exchanges, although Karachi continues to dominate trading, accounting for around 90 per cent of turnover.

Mr Abdullah said computer assisted trading would soon be introduced, but the exchanges were a long way from introducing automated matching.

Foreign brokerages complain that since most local broking houses are also stock jobbers, the lack of transparency in the marketplace provides ample room for abuse on the quoting of prices. With a computer-assisted trading system, the information flow would become more rapid.

There have already been scandals involving inaccurate statements from listed companies, an area where the CLA is also focusing on changing the laws so that disclosure and investor protection regulations correlate with those in the US.

There remain numerous anomalies which are being changed – under current law a registered stock exchange can be one person – but the chief problems are with the trading and settlement systems, which are currently being altered. There has only been one case of a brokerage defaulting, and its losses were covered by the sale of its exchange seat.

There still remain the other barriers to foreign entry: the fears of political instability, Islamisation and a textile sector suffering from the world-wide recession but which forms one third of market capitalisation and 60 per cent of the country's export earnings.

But with an industrialist at the helm, business sense should prevail over religious sensibilities.

The textile sector may be in pain, but it has a vocal political lobby which tends to overstate the extent of its woes in order to extract greater concessions from the government, as a result of its economic importance – it has had some notable victories in this regard.

With a plentiful supply of cheap cotton, it is only the small and highly-geared spinners that could be troubled, and the current low cost of yarn should provide a welcome incentive for the industry to evolve towards higher value added weaving and garment manufacturing.

The market has low p/e's and high earnings growth, in an economy with falling inflation and rising GDP growth. "If the political situation is not a problem in Pakistan, then the market is very cheap", argued Mr John Chiu, director of GT Management (Asia). Local brokers insist there is no problem.

☐ What the new banking rules mean

Safer for users

IN THEORY, a combination of new Prudential Regulations, combined with the government's aggressive push for deregulation, will produce a much safer but more competitive banking sector in Pakistan.

In reality, says Mr Imtiaz Ahmed Hanafi, the State Bank of Pakistan governor, Pakistan is now over-banked and bankers are over-protected.

But there is reason to believe that the system will be a significant improvement for depositors and borrowers.

Pakistan's banking sector has had a tempestuous history. The arrival of a flood of new and privatised banks might prove an unbearable strain to an untried framework of regulations.

But bankers argue that, if anything, the new regulations are even more stringent than those required by the Bank for International Settlements (BIS).

The State Bank has made the protection of deposit holders its principal requirement. The insistence that 40 per cent of banks' non-contingent liabilities be held in government bonds or cash provides substantial backing for depositors; it is also a useful way of constraining liquidity.

The depositors deserve some reward. In recent years, government restrictions have made it unprofitable for banks to mobilise savings, while higher reward alternatives, such as the Co-operatives, have exposed savers to unlimited risk.

Pakistan has one of the lowest saving rates in Asia, at 12 per cent of Gross Domestic Product. The figures are exaggerated by the existence of an active underground banking system, but the latest reforms should help suck more savings into the official economy.

On the other side of the coin, banks will be under pressure to provide cheaper credit for a business sector in which the lack of competitive financing is seen as one of the main disadvantages of operating in Pakistan.

The government is to start controlling bank lending through reserves rather than credit ceilings. Before, banks could lend only set amounts to different sectors, some of which was at enforced concessionary rates. Beyond those limits, any excess capital would have to be invested in government bonds paying a 6 per cent interest coupon, compared with lending rates of more than 14 per cent.

State Bank Governor Hanafi: fear of over-protection

The new Prudential Regulations restrict lending by reference to bank reserves and the quality of the borrower; while government securities are now sold by auction and have been issued at more than 13 per cent.

Bankers complain that these are not free auctions, since the government has not always accepted the best bid, forcing a re-auction and thereby dictating market rates. But the returns have been substantially improved.

These changes have been accompanied by increased competition, as part of the government push to deregulate the economy and encourage private sector expansion.

Two of the banks that were nationalised in the Bhutto era of the 1970s have been re-privatised, while another two are due to follow shortly. A further 11 commercial banking licences have been issued, and the system is beefed up by 23 foreign banks, numerous investment banks, leasing companies and Modarabas, an Islamic hybrid between a leasing company and venture capital fund.

The PRs should tighten the quality of loan portfolios and reduce the level of bad debt, while the deregulation should create a more competitive environment, aiding the process of private sector-driven economic development. This is not necessarily good for the banks, but it will put pressure on them to be more efficient.

Of more concern to many bankers is how to work within a system where interest is against the edicts of Islam, and where it is impossible to anticipate the extent to which the government will go to stamp it out.

Non-interest forms of banking in the local banking system were introduced in 1985. Under the current system, even foreign banks have to offer local depositors a profit and loss scheme, whereby the depositor gets a return based on the performance of the bank, like a preference shareholder.

Loans are handed out on a similar basis of lender participation, although there is an alternative system of mark-up, whereby a bank buys a commodity from the borrower and sells it back at a higher price, with deferred payment arranged over a fixed period.

Foreign bankers have adapted "happily" to the new system, but are concerned about potential changes, following last November's Shariat Court decision that all interest was repugnant to Islam and that 22 economic laws must be invalidated.

The court, which was introduced to ensure that the nation's laws conformed with the tenets of Islam, was also highly critical of the concept of mark-up. This has put significant pressure on the Government which has just made Islamic Law the supreme law of the land, but had diluted this by stating that no changes should be made to economic laws until a satisfactory alternative was found.

The mixing of business and religion makes for an explosive cocktail, but the reaction among local bankers is relaxed. They say that privatisation and deregulation is the focus of this businessman's government, and Islamisation does not sit well on that agenda. Their conclusion is that everything will eventually change, but it will all remain effectively the same.

Simon Davies

PAKISTAN faces a clear political challenge: to move beyond the legacy of military rule and firmly establish the acceptance of democracy.

Mr Nawaz Sharif, the prime minister, rules with a parliamentary majority in Islamabad and his IDA (Islamic Democratic Alliance) coalition controls the four provincial governments.

But in a country ruled by army generals for 24 of the 45 years years since independence, Mr Sharif's government has yet to demonstrate clearly that it has full control. Suspicions continue over the army's aspirations to manipulate politics from behind the scenes.

The government at times appears constrained by a complex informal decision-making structure, often called the "troika", consisting of the army chief, the president and the prime minister.

President Ghulam Ishaq Khan, an ex-bureaucrat and formerly one of General Zia-ul-Haq's most trusted ministers, has wide constitutional powers to dissolve the parliament. Two years ago, he exercised them by *dismissing the government of* Ms Benazir Bhutto, which itself had unexpectedly come to power in elections after the death of Gen Zia in an air crash in 1988.

A government minister recently conceded that there is continuing nervousness over the fact that "national politics and economic affairs need one clear decision making structure to go ahead rather than a divided one".

In public, army leaders and politicians *deny that there are rifts* between competing interests on important policy issues. But events such as a recent army-backed crackdown in the southern province of Sindh early this summer caused divisions between civilian and military leaders over the conduct of the operation.

Mr Sharif's ruling alliance has been faced with rumours of an imminent change of government, prompted by splits, first with the conservative Jamaat-I-Islami party *and subsequently with a Karachi*-based powerful regional party, the MQM (Mohajir Qaumi Movement).

The opposition PDA (People's Democratic Alliance), led by Ms Bhutto, recently announced that it would submit en-masse resignations of its members from national and provincial assemblies to force a crisis which would lead to national elections. However, the opposition has yet to announce a date for such action.

PDA politicians concede that the decision is difficult because, if it failed to induce a crisis, their withdrawal could simply lead to by-elections for the vacant seats. Moreover, the opposition has still to generate enough public support.

The result is that, to the extent that it is possibly to judge the outcome of political skirmishes, Mr Sharif's government seems set to carry on. Government officials say there are no clear-cut alternatives acceptable to the president, and the army is not likely to intervene directly.

"They cannot go back to Benazir Bhutto because they've already tried her. Changing governments every couple of years also makes it difficult to justify continuing this democracy," said a senior official.

However, Mr Sharif still faces difficult problems. Successive governments have been faced with rampant lawlessness in the southern province of Sindh. Highway robbers, professional kidnappers and militant political activists have been involved in crimes, fuelling fear among the local population and business community.

Instability in Sindh risks weakening the position of the provincial government which is backed by Mr Sharif. At the same time, the fall-out could benefit Ms Bhutto, given that it is her home province.

Islamisation of the country's legal, political and economic system is a further important test for the government.

Last year, a "Shariat bill" was passed in the parliament, to provide the basis for introducing Islamic laws in the country. Businessmen and international lenders and investors are concerned about the implications. Mr Sharif is attempting a middle line, calling for laws which make sense for businessmen but maintaining the government's public commitment to Islamisation and avoiding alienation of fundamentalist elements.

The government is seeking to win popular support through a three-year Social Action Programme designed to improve health, drinking water and literacy. But with few opportunities for drastic cuts in defence spending and the government's debt service payments, there is limited ability to speed up development.

Finally, there is little evidence of a thaw in bitter relations with Ms Bhutto's opposition PDA. From the government's side, there are few signs of any significant moves by Mr Sharif to discuss concerns such as the alleged large scale arrest and victimisation of Ms Bhutto's supporters.

The PDA, which was itself unseated because of allegations of corruption, has meanwhile intensified charges of corruption and mismanagement against government leaders.

With elections for the presidency due by the end of next year, the divide may widen further in coming months, as opposing camps prepare for the campaign.

Farhan Bokhari

Prime minister Sharif: the government has not yet demonstrated its full authority

☐ POLITICS

Slow march to full democracy

☐ TIPS FOR THE BUSINESS VISITOR

Take a mobile phone

Pakistan offers significant opportunities for foreign companies seeking to export, import, or invest. Here are a few tips for visitors.

■ Pakistan is a Moslem country, and visitors should dress and act appropriately. Alcohol is banned, though drinking does take place illegally in private homes. An exception is made for non-Moslem visitors, who are allowed to order drink from room service in their hotels. They must sign *several forms — including* one swearing that the alcohol is for medical purposes — and must not offer it to Moslems.

■ If you are arriving or travelling by air in Pakistan, try not to do so when a very very important person is doing the same thing. "VVIP *Movement*" closes airports and delays all flights for the rest of the day.

Reservations on all flights need to be confirmed and re-confirmed. Take nothing for granted and be at the airport by the required *check-in time, as flights are* crowded and there is constant jockeying for *places. This is partly* because Pakistan has a Brazil-like triangle of cities. Karachi in the south is the business and industrial centre, Lahore is the largest city and capital of Punjab province, and Islamabad in the north is the federal capital, built in the 1960s in the suburbs of nearby Rawalpindi.

Most business travellers will want to fly rather than take trains which are slow and, in the south, may not be safe. Avoid road travel in Sindh province away from Karachi — though the recent army crackdown has, at least for the time being, considerably reduced the risk from *dacoits*, or highway robbers, who go in, among other things, for kidnapping and extortion.

■ Telephone lines are unreliable and of poor quality. In Karachi, it can *take hours to make a* successful connection on a local call. Numbers are frequently changed without *notice. This creates* problems in setting up appointments and *underlines the need for* reliable local help in fixing up meetings before you arrive in Pakistan.

A relatively cheap aid is a cellular phone, which can be rented for Rs1,500-1,800 a week, with a charge of Rs4 per minute for airtime plus the regular phone bill. Though this does not bypass the telephone network, it does enable you to make calls between appointments.

However, the waiting time for installing new telephone lines has dropped sharply — it used to be three to five years — and contracts with foreign suppliers are likely to hasten the process.

■ Economic reform has already made doing business much easier. At least in theory, investments and most other business decisions no longer need official sanction. However, it is still useful to do *homework* on which bureaucrats you need to see in which ministry. It is also advisable, *if considering* an investment, to make a full check on the relevant infrastructure, such as *power, water and roads.*

■ Health hazards are those common to most Asian countries. Avoid tap water, ice and salads. Before ordering seafood in the north, consider the distance it must travel to get there. Consult your doctor about inoculations. If you plan to travel in the far north, remember the altitude.

■ Pakistan offers beautiful scenery, especially in the north, and tremendous opportunities for trekking, climbing, or just plain walking. Flights are available from Islamabad to Gilgit, or you can try the Karakoram Highway. A short, easy car trip from Islamabad into the hills would take in the former hill station of Murree, and Bhurban, where a new luxury Pearl Continental hotel has just opened. From there you can see mountains stretching away to the horizon and be back *in Islamabad by lunchtime.* Taxila, an important archaeological site dating back at least to the 6th *century BC*, is also close by.

If you want a taste of the north-west frontier, go to Peshawar, a bustling city where just about anything is traded. Before attempting more adventurous travel, remember the unstable situation in Afghanistan and the high tension in Kashmir — *it is not possible to cross* the line of control into Indian-held Kashmir.

The main hotels are important centres of social life for the elite: the Holiday Inn in Islamabad and Karachi (both soon to become the Marriott); also in Karachi, the Sheraton, Pearl Continental and Awari Towers; the Awari and Pearl Continental in Lahore.

Superb carpets, especially from Afghanistan, are by far the best items for the acquisitive visitor to target. Leather and cotton goods are also of good quality.

The Shalimar gardens in Lahore, Pakistan's largest city and capital of Punjab province

URBAN DEVELOPMENT

As Whitehall encourages local leadership in its approach to inner city regeneration, council leaders have come to realise the need to work with the grain of government policy if they are to do the best for their areas, writes John Willman.

Charm and a challenge

THE LAST two years have seen a remarkable evolution in UK urban policy, with a new partnership emerging between the government and inner-city councils.

After a decade of antagonism between central and local government, ministers with responsibility for local government have launched a charm offensive to build new relationships.

Previously, local government was seen as an impediment to restoring inner-city areas – even, through its attitudes, as a factor in urban decay. Now the emphasis in Whitehall is on fostering local leadership as part of the solution.

Rather than holding control over spending at the centre, an increasing proportion of government funds is being dispensed to local authorities to spend as they see fit to implement agreed strategies.

Council leaders, for their part, recognise that, with the re-election of a fourth-term Conservative government, they must work with the grain of government policy, if they are to do the best for their areas.

The key change in creating this new partnership in urban regeneration was the return of Michael Heseltine to the Cabinet at the end of 1990, for a second term at the department of the environment. Mr Heseltine had spent time on the back benches, drawing lessons from his first term at the department and looking at overseas experience, particularly in North America.

During his first term, he had invented the urban development corporations (UDCs), to demonstrate a new approach to inner-city regeneration. Government funds were used to reclaim derelict land and provide infrastructure, in order to tempt the private sector back into urban areas. Scarce public resources would be used to lever in much larger amounts of private investment, encouraging partnerships between the sectors rather than leaving everything to the public sector.

The UDCs have had mixed success: some were much more successful than others in attracting private investment; and the collapse of the commercial property market has stalled some of the more ambitious plans, especially in London Docklands. But none has failed to make an impact on its area – and there have been spectacular successes as the table of comparative data on page 2 of this survey shows.

Since the UDCs are necessarily limited in scope to relatively small areas, Mr Heseltine sought a way of persuading urban local authorities to take the leadership role in similar strategies. The solution was City Challenge: offering significant sums of money for inner-city projects to councils which could demonstrate the active participation of the private sector.

The money was to be allocated by competitive bidding, putting the onus on local authorities to make the case – a challenge which most have taken up with enthusiasm.

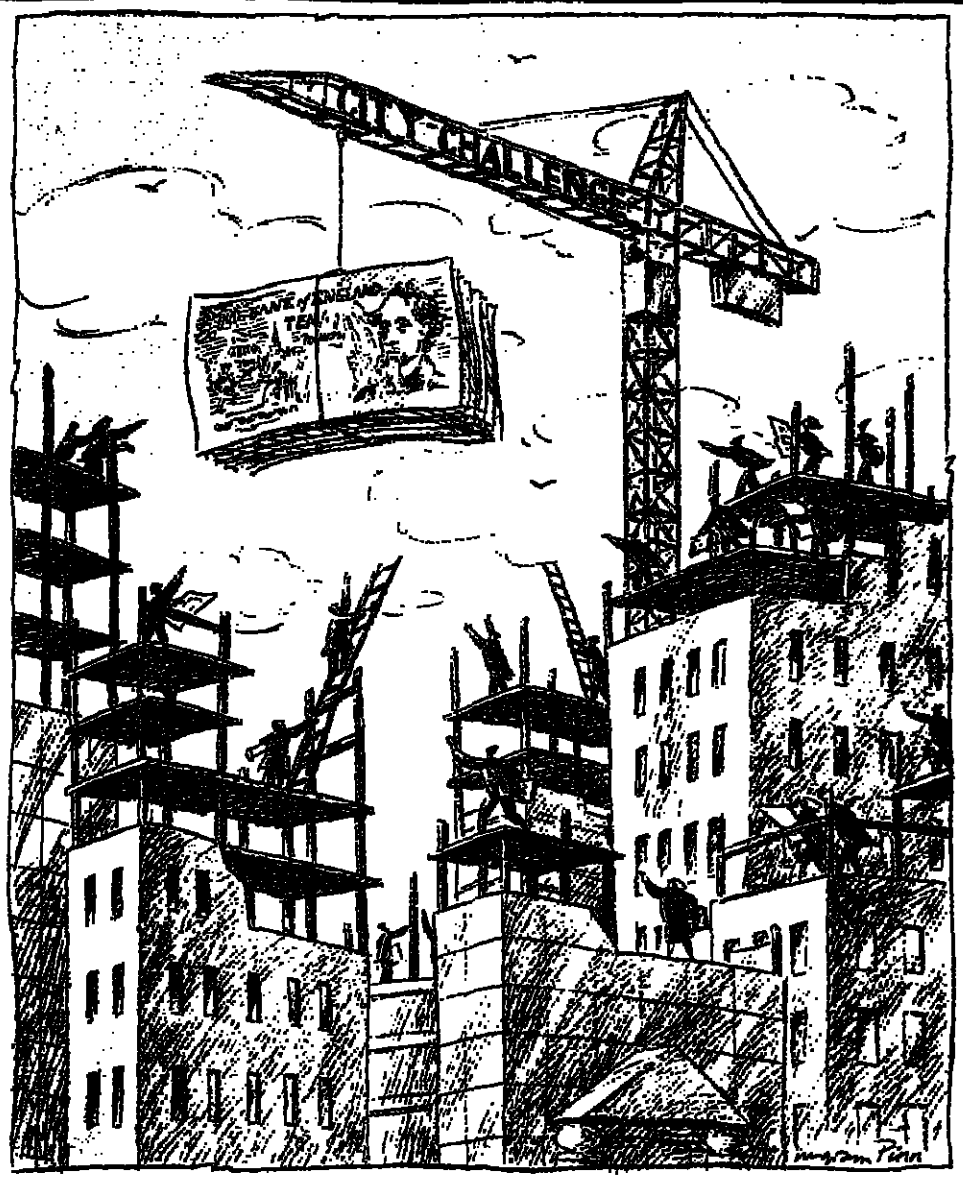
Mr Victor Hausner, whose London-based consultancy advises the environment department on the programme, emphasises the importance of the new role given to local government. "City Challenge is probably the most significant nod to local authorities in the last decade," he says.

A key element of the City Challenge approach was its "one-stop" nature: rather than deal with several departments to win funding under different heads, councils could bid for a single sum to be spent in a number of ways.

The size of the purse was also important: instead of spreading the jam too thinly across many areas, the idea was to make a significant impact on a relatively small area. Equally significant was the five-year perspective: successful regeneration requires the sort of long-term planning which the uncertainties of annual funding make difficult.

The downside of the competitive bidding for funds is that, inevitably, there must be losers as well as winners. It is this element which has led critics to describe City Challenge as a gameshow – though this has not usually stopped the critics from bidding, often successfully, for funds.

But the need for there to be losers, *pour encourager les autres*, raises the question of what happens to areas which repeatedly fail to produce convincing bids. So far, some 30 of the 57 urban priority areas have been successful: but three – Bristol, Salford and Sheffield – have failed in both rounds.



As the case study of Bristol, on page 4, shows, such a failure can be particularly disheartening for the voluntary bodies which form part of the team in putting together a bid. If losing knocks the stuffing out of those in the front line, the effect of entering City Challenge could actually be to damage an area's prospects.

Already there is evidence that *ad hoc* solutions have to be found when City Challenge bids fail. When Birmingham failed to win funds for its Heartlands regeneration project in the first pacemaker round, a UDC was unexpectedly conjured up.

The project was an ambitious partnership between private and public sector of exactly the type the government was keen to foster. Yet it looked likely to collapse without the funds sought under City Challenge for land reclamation and infrastructure.

Creating a UDC allowed the government to bridge the gap with a similar level of funding, to the surprise of many who had thought that the development corporations were soon to be wound up. Large urban areas cannot be allowed to fail, especially when they are politically marginal.

Those local authorities which have so far failed in City Challenge will, no doubt, look forward to a third round next year. However, the decision has yet to be made on whether there will be another round. The large amounts of money committed to inner-city regeneration are an attractive target for the Treasury in a tough public expenditure round.

Even if there is a further round, the list of urban priority areas eligible to bid will be reviewed. The 57 were selected on the basis of the 1981 census, and many of the areas included have changed considerably since then. It will have surprised many, for example, that the prosperous south-west London borough of Wandsworth was in on the bidding, along with very deprived councils, such as North Tyneside and London's Tower Hamlets.

With new data coming through from the 1991 census in November, it would not be surprising if the list were to be amended, and even shortened, before a further round of City Challenge.

Finally, there will be new opportunities for inner-city development once the new Urban Regeneration Agency is launched later next year under the chairmanship of Lord Walker. Mr John Redwood, the inner cities minister, describes the URA as a "roving UDC" in his interview, on page 2. It will be able to clear land and – if necessary – sweep away red tape, with a healthy budget to encourage private sector investment.

The agency will not supplant the existing UDCs, which will continue to receive separate funding until they are wound up (probably by the middle of the decade). However, it will work closely with them, with a committee of UDC chairmen meeting regularly with Lord Walker to discuss common problems.

Lord Walker has extensive experience of urban regeneration from his periods as environment secretary and as Welsh secretary. In the latter position, he worked closely with local authorities, using government resources skilfully to promote regeneration in Wales.

He will be equally keen to promote good relationships with local authorities, adding further to the constructive bipartisan approach which is now developing.

New agency will help to restore derelict land

☐BY THIS time next year, there should be a new force in urban regeneration in England.

Provided parliament approves, the Urban Regeneration Agency will have powers to reclaim and develop derelict and under-used land.

On page 2 of this survey, Mr John Redwood, the new inner cities minister (*pictured*), is interviewed about the plan to extend nationwide the approach that has been so successful for the urban development corporations.

ALSO IN THIS SURVEY

URBAN DEVELOPMENT 2

Interview: John Redwood

New agency will revive tired land

BY THIS time next year, there should be a new force in urban regeneration in England. Provided parliament approves, the Urban Regeneration Agency (URA) will be up and running, armed with powers to reclaim and develop derelict and under-used land in England – and up to £300m a year to spend.

For Mr John Redwood, the new inner cities minister, the URA offers an opportunity to extend nationwide the approach which has been so successful for the urban development corporations (UDCs).

"Development corporations were the right way forward for large blocks of land in one place, which needed a big budget to revive," he says. "The URA will tackle smaller areas, as a sort of roving UDC.

"There remains over 150,000 acres of land in our towns and cities which could be better used. The URA will have funds which can be used to trigger private-sector investment, and compulsory purchase powers where needed to assemble land for development."

The URA will take over responsibility for two parts of the urban programme:

■ Derelict land grant, which over the past four years has funded the treatment of 10,000 acres of derelict land, mainly by local authorities; and

■ City grant, introduced to help the private sector develop inner-city sites which would not otherwise have been viable – it has levered in £1bn of private investment since 1988.

John Willman talks to the new minister responsible for the inner cities about the next step in the reclamation of the UK's wasted acres

These two grants will immediately give the agency control over more than £100m of government expenditure. But the URA will also take over English Estates, the government body which helps provide industrial and commercial premises in the assisted areas and certain other development areas. Sales of land and property by English Estates could provide another £200m a year for the URA.

Ideally, the agency will act at the request of a local authority, says Mr Redwood. In most cases, an active partnership with the local council will be essential, for the URA will not automatically have planning powers.

In exceptional circumstances, however, the agency will be given development control powers in areas designated by the secretary of state. But even then, development would have to be within the framework of the local planning authority's plans.

"There will be considerable attractions for local councils to co-operate with the agency," Mr Redwood says. "The URA will have cash, contacts and expertise which can all assist local efforts."

With larger projects, there may even be some form of local participation, with a steering group bringing together all the partners required for successful urban regeneration: central government, the local authority, the private sector and voluntary and community groups.

It is the creation of such partnerships across the country that Mr Redwood sees as the great achievement of 13 years of Conservative urban regeneration policy. He is particularly enthusiastic about City Challenge, the process by which inner-city areas bid for funds for urban regeneration.

"It was one of Michael Heseltine's most creative ideas on his return to the environment department," he says. "City Challenge changes the way that people look at regenerating their area: they realise that it can't be done by government money alone."

On arriving at the department of the environment's Marsham Street headquarters in the post-election reshuffle, he was faced with 54 bids for funds in the second round of City Challenge. To the surprise of officials, he decided that every bidding authority should have the opportunity to make a presentation of its case to a minister – John Redwood personally sat in on some 20 bids.

Choosing the winners was no simple matter.

"In every case, we asked ourselves the question, does the scheme make sense – will it work? Some did not, but most did, so we then went on to make the hard decisions about which offered the best way to spend the money.

"There was no difficulty in agreeing on the 10 best proposals, or in eliminating the weakest. But in between, there was a large block of bids of merit which were very difficult to separate.

"At the margins, we came down to examining levels of relative deprivation to select which should go forward."

Mr Redwood is sensitive to the plight of the unsuccessful bidders, especially those who have failed in both rounds.

"We have tried to include an outline of the reasons when writing to those local authorities which were unsuccessful," he says. "I am very open to discussion to help improve the chances of subsequent bids."

And he points out that the plans drawn up to prepare bids are not wasted: they can be used to apply for funds under other parts of the urban programme or to raise capital from the private sector.

Despite his evident enthusiasm for the way that City Challenge galvanises local authorities, Mr Redwood cautions that the jury is still out on whether it can deliver its promise.

"It remains to be seen whether the partnerships which are formed to mount bids can be held together," he says. "We shall be following their progress closely, ensuring that targets are met."

But he is confident that a new relationship is developing between the Conservative government and the largely Labour-controlled inner-city local authorities. One symbol of that is the partnership between the prime minister and the leader of Manchester city council to bid for the Olympic games on behalf of the city.

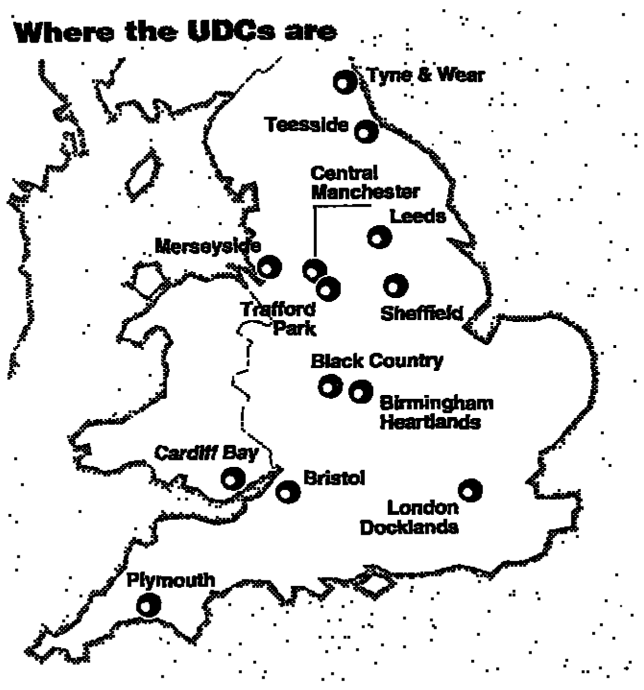
Another is the more emollient approach taken to the reform of local government management. Proposals put out by Mr Heseltine for consultation last year – which included the introduction of directly elected mayors – have been referred to a working group, including local authority representatives, to examine best practice and come up with an agreed approach.

"We wish to work with local councils," says Mr Redwood. "And there is a realisation on their side – particularly since the election – that if they want to speak for their own areas, they must talk to us."

After 13 years of often open warfare between Whitehall and the town halls, Mr Redwood's desire for a new relationship will be widely welcomed.

John Redwood: 'cash, contacts and expertise'

Where the UDCs are



Development corporations were the right way forward for large blocks of land in one place, which needed a big budget to revive, says the minister. The URA will tackle smaller areas

The UDCs: who's who, and what's been accomplished so far

UDC	Date estab.	Area (ha)	Initial nature of area	Initial pop.	1991-92 expend. grant-in-aid (£m)	Total grant rec'vd so far (£m)	Private sector investm't so far (£m)	Chief executive	Address and telephone number	Key achievements
Merseyside	March 1981	960*	Derelict dockland, polluted waterfront – complete dereliction	7,000*	30	268	200	Chris Farrow	Royal Liver Bldg Pier Head Liverpool L3 1JH 051 236-6090	Regeneration of Albert Dock; 1984 International Garden Festival; Brunswick Business Park
London Docklands	July 1981	2,226	Derelict docks and associated industry – 45% of area derelict	40,000	240	1,350	9,100	Eric Sorensen	Thames Quay 191 Marsh Wall London E14 9TJ 071 512-3000	Over half derelict land reclaimed, 27m sq ft of non-housing space created, 16,000 homes built, and population up 20,000
Trafford Park	Feb 1987	1,267	Mature industrial estate – one third derelict or under-used	40	28.1	92	556	Michael Shields	Traff'd Wharf Rd Wharfside Trafford Park Manchester M17 1EX 061 848-8000	Created 9,000 new jobs, attracted 488 new companies and will be site of Channel Tunnel terminal for Gtr Manchester
Black Country	May 1987	2,600	Derelict metal-working and other industrial sites, with population interspersed	35,000	46.2	142	85.7	David Morgan	Black Ctry Hse Rounds Green Rd Oldbury West Midlands B69 2DG 021 511-2000	Created 9,500 new jobs, acquired target of 400ha land and building spine road link to motorway network
Teesside	May 1987	4,565	Former steel and chemical industry sites – more than half derelict or unused	950	56.2	161	580	Duncan Hall	Dunedin House Riverside Quay Stockton-on-Tees Cleveland TS17 6BJ 0642 677123	6,025 new jobs created, 160 new companies attracted, and over 1m sq ft of non-housing space built
Tyne & Wear	May 1987	2,375	Shipbuilding and riverside industry, one-third derelict	3,700	31.4	126	450	Alastair Balls	Scotswood House Newcastle Business Park Newcastle-upon-Tyne NE4 7YL 091 226-1234	Over 300ha of derelict land reclaimed; 1.64m sq ft of non-housing space. 8,300 jobs and 1,400 homes created
Cardiff Bay	April 1987	1,100	Old docklands, 25% derelict or under-used	5,600	32.6	124	115	Michael Boyce	Baltic House Mount Stuart Square Cardiff CF1 6DH 0222 471576	Over 500ha acquired for development, to create up to 1m sq ft of non-housing space. Cardiff Bay barrage expected to start work 1993
Central Manchester	June 1988	187	Heavily built-up mixed-use centre area, 40% derelict or under-used	250	16	43.5	186.6	John Glester	Churchgate House 56 Oxford Street Manchester M1 6EU 061 236-1166	More than a quarter of derelict/unused land reclaimed, with over 800,000sq ft of non-housing space created
Leeds	June 1988	540	Mixed industrial sites, including former power station, 20% derelict or underused	2,600	13.6	39	116	Martin Eagland	South Point South Accommodation Rd Leeds LS10 1PP 0532 446273	Created 6,500 jobs and built 2.8m sq ft of non-housing space, attracting Royal Armouries to Leeds
Sheffield	June 1988	900	Former steel sites, 40% derelict or unused	300	13.3	50	484	Graham Kendall	Don Valley House Savile St East Sheffield S4 7UQ 0742 720100	86ha of land reclaimed (incl. major industrial sites). Retail warehouse park of 200,000 sq ft fully let
Bristol	Jan 1989	360	Mixed industrial area, 20% derelict or under-used	1,500	16.5	35	44	Miles Collinge	Techno House Redcliffe Way Bristol BS1 6NX 0272 255222	Over 300,000sq ft of non-housing space and 110 houses built. 550 permanent jobs created
Birmingham Heartlands	April 1992	1,000	Run-down industrial area, including former gas and electricity sites, 25% derelict or under-used	12,000	na	na	na	Jim Beeston	6th Floor Waterlinks House Richard Street Birmingham B7 4AA 021 333-3060	£50m of government grant promised over five years
Plymouth	By end 1992	na	Former naval victualling yard, former RAF base and adjoining land	na	na	na	na	To be appointed	To be located	£45m of government grant promised over five years

*Total following extension of UDC area in 1988. na = not available (launch recent or imminent) Source: the urban development corporations

The 24-acre canal basin occupies an important site in the centre of Sheffield, and is the subject of a £70m mixed-use scheme. The first stage of its development, to feature the waterfront area and the restoration of listed buildings, will begin later this year

URBAN DEVELOPMENT 3

In reviewing the achievements of City Challenge, **Andrew Adonis** finds that it has not entirely silenced its critics

Even the unsuccessful value the contacts made

Michael Howard believes that the experience of applying will bear fruit for the losers Picture: Ashley Ashwood

CITY CHALLENGE is the government's flagship programme for urban regeneration.

Launched by Mr Michael Heseltine, in his second stint at the Environment Department between the end of 1990 and this year's general election, it has now gone through two rounds, embraces 30 of England's 57 urban priority areas (UPAs), and will consume more than £1bn of central government urban programme funding over the next six years, around a sixth of the total.

"City Challenge is about vision, quality, partnership and expecting local authorities to lead their communities with flair and imagination," declared Mr Heseltine, announcing the first-round winners last year.

In more concrete terms, four principles underlie City Challenge. They are that:

- Local authorities should work with their local business and voluntary sectors in forming and implementing regeneration plans;
- Government funding for urban regeneration should be used as "leverage" for contributions from the private sector and other public bodies;
- Councils should prioritise their aspirations and give real impetus to the most urgent;
- Long-term funding should be available to see projects through to completion, freeing regeneration projects from the tyranny of the annual public spending round.

Most City Challenge winners have chosen to manage implementation through an arm's-length company broadly representative of the main development partners. This is not a requirement of the scheme, but is looked upon favourably by ministers.

To give an edge to the process, City Challenge was designed as a competition, forcing councils to bid against each other for available funds. The "losers", it was hoped, would gain tips from the "winners", so that they could win on the next round. Since virtually all the 57 eligible authorities are Labour-controlled, the room for political favouritism is limited – and appears to have played little part in deciding the winners.

City Challenge was greeted with near universal cynicism by councillors in the UPAs, but it now receives endorsements (albeit qualified) from surprising quarters. Few council leaders deny the value of contacts and efforts made in preparing City Challenge bids. Many of them also appreciate the spin-offs, not least the regular bringing together of ministers and Labour councillors to discuss objectives and problems, one aspect of the steadily improving relationship between central and local government.

City Challenge now receives endorsements, albeit qualified, from surprising quarters

"Now I feel I can get on the phone to Redwood [the local government minister] to talk things over," says one London borough leader, not noted for cordiality towards Tory politicians.

Labour objects to the competitive bidding element, "losing" councils protesting loudest. There is also concern at the inflexibility of the scheme: all winners in the first two rounds got £37.5m over five years, whether Barnsley or Birmingham, and they are were required to show a "leverage ratio" of government to private and other public funding of at least 3:1 to stand a chance of winning.

The greatest source of complaint, however, is the way City Challenge is resourced – by "top slicing" of funds, mainly from the four main existing urban programmes. For losers in both rounds to date, notably cities like Bristol, Leeds and Sheffield, the grant implications are alarming. They could become more serious still if, as rumoured, urban funding suffers in this autumn's public spending round, because existing City Challenge funding is guaranteed to winners in the first two rounds regardless of future cuts to the budgets from which they are drawn.

Such cuts could also put paid to the third round of City Challenge, currently pencilled in for 1994.

"If there isn't enough cash for at least 15 winners, it won't be worth doing," says one insider. "To offer five or six would look ridiculous."

Projects funded in the first two rounds fall broadly into three categories: those for run-down areas of cities, aiming to link them in to their local economies (like Birmingham's Newtown project); those for redeveloping other areas of cities, linking projects in to neighbouring areas of deprivation (like Nottingham's plans to relocate the Sneiton wholesale market to release the site for office, retail and workspace); and "single town" bids, where £37.5m plus leverage ought to enable a medium-sized town at least to tackle most of its urban problems. The second-round awards to Kirklees (for Keighley), Sunderland, Stockton and Hartlepool fall into this last category.

Taking the two rounds and all the bids together, how is the initiative developing?

Mr Chris Griffin, of Victor Hausner Associates, which advises the Environment Department on City Challenge, sees a "significant advance in understanding by councils as to what is wanted". This is evidenced, he argues, partly in their selection of development areas and partly in the quality of their proposed partnerships with the voluntary and business sectors.

"There is much more local analysis and prioritisation, and much heavier involvement by the other partners," he says. "The second-round winners took on board better than the first the need for an integrated strategy rather than just a shopping list of worthwhile projects with 'hopefully' written by the side."

Nonetheless, Mr Griffin believes that greater effort is needed to develop indigenous industries, and he describes many of the estimates of income to be "leveraged" from the private sector as "little more than fingers in the wind." He is careful to add, though, that where there is no a single large developer with the necessary land – as with the Derby and Nottingham schemes – it is difficult to be more precise.

Studies of the respective success of winners in realising their projected "leverage" will make important reading in a few years' time. More immediately pressing for the winners

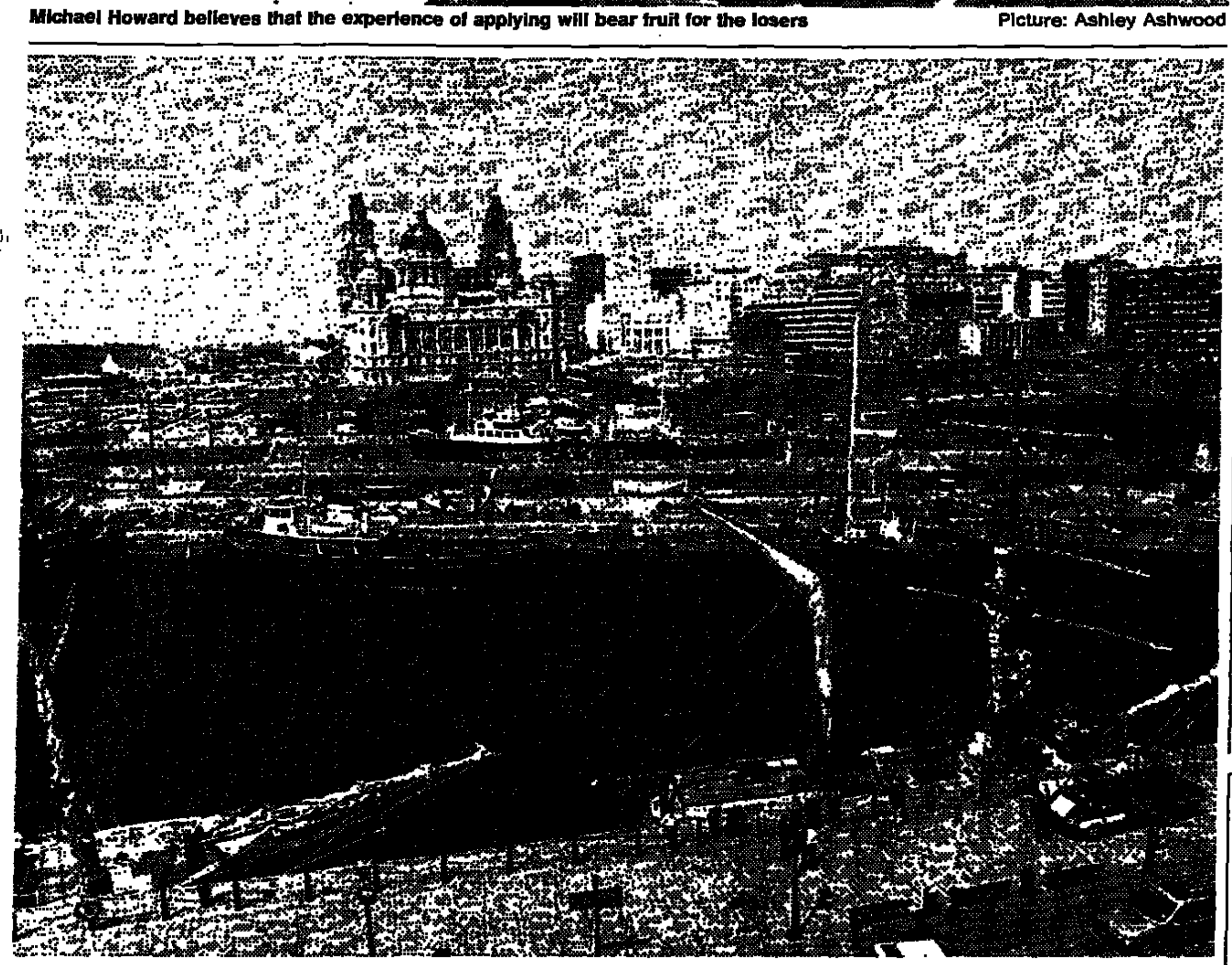
'Second-round winners took on board better than the first the need for integrated strategy'

is establishing their executive teams and local companies, and getting their projects and partners finalised and signed up.

As for the losers, Mr Michael Howard, the new environment secretary, claims that the experience of applying alone will bear fruit. "The map plan unsuccessful authorities have drawn up will provide a focus for future development of their area, and may be used as a basis to make progress through private and public funding of some initiatives."

"Weasel words: in reality, it's cuts all round," says the Association of Metropolitan Authorities.

Much depends on whether or not there is a round three. If there is, the main losers in the second round will make herculean efforts not to lose out again (as did Birmingham when it lost the first time); and ministers will be under pressure not to award two pots of gold to the same authority. None of the winners in round one won in round two.



Albert Dock, which attracts more than 6m visitors a year, is one example of outstanding success Picture: Mike Arron

Merseyside needs the kind of aid that City Challenge offers

Battling with market forces

WHEN THE government put urban funding up for competition in 1991, it changed the rules governing City Challenge after the first 16 local authorities had been allowed into the fray.

They had been picked by civil servants to fight each other for 10 prizes of £7.5m each for five years; but when the winners were announced, there were 11 – and one extra competitor had been let in, bringing the field up to 17.

Mr Michael Heseltine, then environment secretary, said two local authorities had made bids of such equal merit that it would have been unfair to choose between them.

He would not say which they were, but the evidence now suggests that they were Liverpool and Wirral, giving Merseyside two winners in one year, a politically surprising result.

As in many a contest, coincidence and luck played an unfair part. Mr Heseltine was scheduled for a routine ministerial visit to Wirral the day after last year's local government elections, but Ms Yvonne Nolan, Labour leader of the council who supported non-payment of the poll tax, lost her seat, throwing the arranged programme into disarray.

In stepped Mr Alan White, the council's thrusting chief executive, to fill the gap. He and his economic development team had been stung at being excluded from the City Challenge race so as to allow Liverpool a clear run as Merseyside's sole representative.

He made the most of having a captive audience, won his argument and Wirral won the extra prize.

This year, Merseyside's other dockland borough – Sefton – was also among the winners, which means the county now has three dollops of £7.5m-a-year of City Challenge money.

This is on top of the annual £20m-plus that Merseyside Development Corporation has been getting since 1981 and extensive disbursement throughout the county of derelict land grants, urban development grants and city action grants for private sector projects.

Merseyside needs this sort of aid, because market forces have been running against it for most of this century. The pattern of world trade changed. So did shipping technology. The resultant problems took generations to reach crisis point, but may also take generations to solve. Local political extremism is easier to understand when set against the frustrations involved.

Economic structure is central to any analysis. There is too narrow a base of industries, a poor mix of big and small employers, and a tradition of low skilled labouring among too many male workers. Add social and housing distress, and the most sustained depopulation in Britain is explained: Liverpool is about two-thirds the size it was in the 1950s.

The pattern and effect of targeting spending since 1979 is now emerging. Government urban policy initially concentrated on restoring the Liverpool waterfront, control of which was removed from the city council, and on several large projects in the conurbation.

Ian Hamilton Fazey depicts a winning conurbation. . . More winners (and losers) are profiled on the next page

The Albert Dock, which now attracts more than 6m visitors a year, is one example of outstanding success. So is Wavertree Technology Park, which has brought hundreds of high-technology jobs into Liverpool; so too is Ravenhead Renaissance, which is reclaiming acres of land poisoned by 18th and 19th century glass and chemicals works in the middle of St Helens.

The three City Challenge schemes will fill important gaps. All derive from the changing nature of Merseyside as a port. The port is actually thriving again now, thanks to demanning, modern technology, and Britain's most successful freeport – an area within the docks with a VAT-free internal taxation regime.

But it is Merseyside's redundant dockland, designed for an age of small general cargo ships and manual handling of cargoes, that has been the root cause of physical and infrastructural problems.

In Liverpool, this centred on the waterfront and several miles of small, disused general cargo docks. In Wirral, it was a half-redundant, but still active docklands area between Wallasey and Birkenhead. In Sefton, it was in Bootle – where most of the docks are still use, but their hinterland is shabby, and looks as though it has never quite got over the May blitz of 1941.

Indeed, whenever the Luftwaffe bombed the port, they usually hit Bootle. The devastation was so bad that it was an official secret until public records were opened in 1971.

This will even affect what happens now. Mr Chris Oldershaw, who has led most of the work on Sefton's City Challenge, says some areas may have to remain undeveloped: several large public shelters were hit by bombs and sealed with bodies unrecovered. They are unmarked war graves, but Mr Oldershaw says local people know where they are and do not want them touched.

However, this will not stand in the way of council tenants being relocated away from the docks, where their lives have been blighted by dust from imported coal. A buffer zone of industry will separate docks and housing, a large business park will be built within the freeport, better roads will improve links to Liverpool and the motorway network, and Bootle town centre will get new offices and shops.

The resurgent Mersey Docks and Harbour Company (MDHC) will be one of Sefton's main partners, along with P&O Properties and Neptune, a Merseyside property development company.

The MDHC will also be prominent in Wirral's City Challenge area, which straddles Birkenhead docks. The freeport is being extended to these docklands, where dockside land is being cleared for factories.

Park Food Group will also be active, expanding on to derelict land it has bought next to its premises. A sports centre will be built nearby, next to the training ground of Tranmere Rovers, the football club which Mr Peter Johnson, Park's chairman, also owns.

The council has already built a strong partnership with the private sector called the Wirral Investment Network (WIN). Mr Peter Coffey, the City Challenge director, says this will play a full role, along with a Community Action Network (CAN) formed by the 29,000 people living in the area – CAN-WIN, in combination.

While Sefton's challenge area also has 29,000 people in it, Liverpool's is very different, with only 4,000. Its problems are, however, just as much a legacy of changed economic structure, for the area is in the city centre.

As if to underline the legacy of bygone days of frenetic Atlantic trading and emigrations to the US, there are 890 listed buildings. Keynote projects include the refurbishment of the Philharmonic concert hall, and the creation of a "fame" school – the Liverpool Institute of Performing Arts – out of a listed, disused school.

Littlewoods, Liverpool Daily Post & Echo, and Royal Insurance are all actively involved with the city council. So are the city's two universities – Liverpool and John Moores – and the government's Merseyside task-force of civil servants. Neptune Developments and Amey Hynd, a local construction company, are other players.

In spite of this necessarily large network of concerned involvement, Mr Peter Wilson, who has been seconded from the task-force to be deputy director of the challenge team, says: "We have made the structure as simple and informal as possible. If we try to be too formal, things might become more time-consuming for senior people in the private sector."

The best news for Merseyside, however, is that in all three City Challenge areas, private-sector commitment looks large and secure. To the world at large, this is important in a community where partnership had no hope in the divisive, politically sectarian days of the mid-1980s, when Militant pulled Labour's strings.

URBAN DEVELOPMENT 4

■ How three City Challenge winners will spend the money

Lambeth walks a tightrope

EVER SINCE the 1981 city riots, which shook the British establishment, Brixton, in south London, has been synonymous with urban blight, deprivation and racial tension.

Since Lambeth, its parent borough, also happens to be one of the two "red Ls" which did so much to foster Tory hatred of local government in the 1980s (Liverpool being the other), the central/south London borough's success in winning £37.5m to redevelop central Brixton in this year's second round of City Challenge merits a note of its own.

If City Challenge were a competition to find the 20 most run down areas in the country, Lambeth would win every time. It has a higher number of unemployed than any other London borough, and nearly a third of them live in central Brixton. The borough has the second highest proportion of lone parents in London, a quarter (5,000) of whom live in Brixton.

Unemployment in Brixton is around 30 per cent (against 12 per cent for London as a whole). Barely one in eight of its residents are professional or managerial, and only one in four of its properties is owner occupied (against 58 per cent for England and Wales as a whole in 1981).

That litany may paint too bleak a picture. The Brixton of 1981 was a whole lot more run-down than it is today. The area directly opposite Brixton station has been redeveloped and now looks much like any other south London high street, featuring a large Body Shop and an attractive shopping arcade.

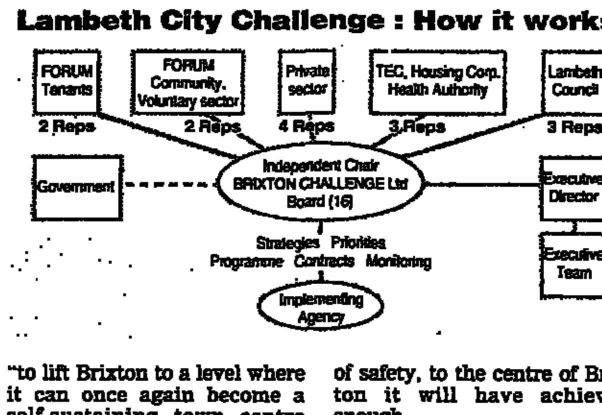
Relations between the police and the ethnic communities are also improved. As for Lambeth council, its glossy, pro-business, cross-party City Challenge would have been inconceivable in the days of "Red Ted" Knight. Rumour has it that the borough's far left was waiting for the bid to fail to condemn its very attempt as a sell out; if so, its success can only strengthen the efforts of Mr Stephen Whaley, Lambeth's moderate leader, to bring Lambeth back into the Labour mainstream. Mr Whaley chaired the City Challenge steering group and made a persuasive presentation to Environment Department ministers.

The area behind Brixton station is the focus of the City Challenge programme. The project's flagship is a P&O Developments scheme to redevelop the 230,000sq ft zone into a mixed office, retail and market area, in conjunction with Lambeth and London Transport.

Unlike so much so-called "regeneration" in past decades, the plan builds on the existing community, preserving the street market and Electric Avenue's shopping arcade, and providing for a new retail centre, office space, a leisure centre, and a facelift for the shabby buildings and streets in the area.

The aim, says the blurb, is "to lift Brixton to a level where it can once again become a self-sustaining town centre which fully meets the needs of local people". Whether any integral part of London needs to be fully "self-sustaining" is debatable, but if the development brings more vitality and business, and a greater sense of safety, to the centre of Brixton it will have achieved enough.

Lambeth City Challenge : How it works



That one project accounts for half of the £80m budgeted to come from the private sector as a result of City Challenge. To match P&O's £40m, City Challenge will put up £8m – without which, say P & O, they could not have contemplated going ahead with the scheme for "some time." City Challenge has not just brought funding: it concentrated the council's mind on the planning aspect, and an outline planning consent has been granted. Mr Basil Winham, P&O's deputy chairman, was a member of the City Challenge Steering Group, and closely involved in the submission.

"City Challenge has brought the council together with the private sector in an entirely new way," says Ms Bernadette Mardram, an assistant director of Housing at Lambeth, seconded to manage the City Challenge bid. "It's been a holistic process – a genuine coming together of businesses, the council, local schools, the police, traders and voluntary organisations."

Ms Mardram's office in Brixton's "Enterprise Centre" is provided by BAT, the tobacco and insurance conglomerate, which has also seconded an employee full-time to work on the project. Mr Brian Hutchinson, of BAT, was a member of the steering group and went with Mr Whaley to press Lambeth's case before ministers. The police seconded an officer to help prepare the bid, and will give another for the implementation.

For the rest, the programme is a compilation of 65 projects – some of them fairly definite development plans, others little more than pious aspirations. There is a strong emphasis on education and training: everything from an "attendance improvement project" (City Challenge £215,000, council £50,000), under which teaching staff will be trained in methods to reduce truancy, to a new Careers and Employment Guidance Centre (City Challenge £200,000, council £2.3m, Training and Enterprise Council £400,000, Employment Service £1.3m), which will locate the local careers service and adult guidance project in single premises, together with the Employment Department's one-stop advice and benefits shop, and a TEC-funded Action Planning Service.

Now comes the nitty gritty of producing an action plan and turning "bare bones" schemes into formal contracts. The implementation of City Challenge will be managed by Brixton Challenge Limited, a "hands-off" company set up for the purpose. Lambeth will appoint only three of the 14 directors of Brixton Challenge and, given the cross-party nature of the programme, even they will not simply be the voice of the ruling Labour group.

Lambeth's City Challenge programme is dressed up like a corporate plan. It begins with a "vision", specifies objectives, then outlines strategy with maps and statistics galore. The "vision" is 2,000 jobs, 8,000 training places, and turning Brixton into "the centre of multicultural entertainment and shopping in south London." Watch this space.

Andrew Adonis

Brum bounces back

WHEN Birmingham succeeded in winning a slice of the 1992 City Challenge funds, the UK's largest metropolitan authority had clearly learned from its 1991 failure.

The rejection of its earlier claim had been quite unexpected, and the city had wasted bid-preparation time by arguing with the government over the terms of its claim.

Having assumed that it would be granted funds, because Birmingham is always granted funds, it came as a shock to be told by the government that it should be co-operating more with other organisations to secure regeneration.

The 1992 City Challenge bid, however, showed that the city council had backed away from a century of paternal tradition, and has perhaps finally shed the notion that it always knows best.

Not only does the bid contain policies which, in Birmingham terms, are radical indeed, for a devolution of its authority down to the local level as far as the provision of its own services are concerned, but it was also based on a massive consultation with local residents.

Newtown-South Aston, the focus of the 1992 bid, is on the north side of the city centre. Forty-five per cent of the population is Afro-Caribbean or Asian. Unemployment rates are double the city average, 91 per cent of the dwellings are council-owned, and 60 per cent of employment is tied to recession-ridden manufacturing.

The area exemplifies in the most striking fashion that increasingly serious British urban problem: a district becoming separated from the economic cycle.

The main spending elements of the plan for Newtown-South Aston are linked, on one hand, to business development and training, and, on the other, to housing. A training and education zone will be established, to harness in partnership all the bodies involved in the sector. Business will be stimulated, it is hoped, by the provision of new premises on the site of the old Lucas industrial complex, on land owned by King Edward's Trust and at the presently woe-begone Newtown shopping centre.

The city council will release its hold on the housing stock to create a diversity of tenure, while the private sector and housing associations will be financially primed to build new, and refurbish existing, homes with the aim of creating a housing market.

This concentration of effort goes beyond the improvement of the physical fabric of the area, and manifests another new approach by the city council – an approach linked to its withdrawal from paternalism.

Much city council effort over the past decade has been devoted to the constructional environment of Birmingham, to the provision of facilities like the International Convention Centre, which will draw visitors to the city. Critics, pointing to the under-spending of the education budget, suggest that too little attention has been paid to the creation of an educated and well-trained workforce.

In turning to social problems, the city council has become more dependent on co-operation with other bodies such as the chamber of commerce and the training and enterprise council.

Such devolution of power and willingness to co-operate has reached its highest expression in Newtown-South Aston.

But this is just one part of the urban regeneration patchwork. The establishment of the Birmingham Heartlands Development Corporation, to the east of Newtown-South Aston, puts the city council, with half the members of the board, into a new financial relationship with central government. The negotiations for a Housing Action Trust, at the Castle Vale estate, force it into a new relationship with both tenants and the private sector.

These two developments, with City Challenge, give Birmingham a trio of new urban revival instruments, carrying total government funds in the order of £200m over the next five years. The price for the city council has been to drop its posturing as an independent *fiefdom – though this* might have happened anyway, because the council is looking for friends after the shock delivered to the controlling Labour group by the latest local election results.

Birmingham's success in City Challenge brings to four the number of successful bids, in 1991-92, from the Birmingham-Black Country conurbation. Wolverhampton won in 1991. Sandwell and Walsall also won this year. The conurbation is beginning to look like an urban regeneration laboratory.

Paul Cheeseright

Tribulation on Tyne

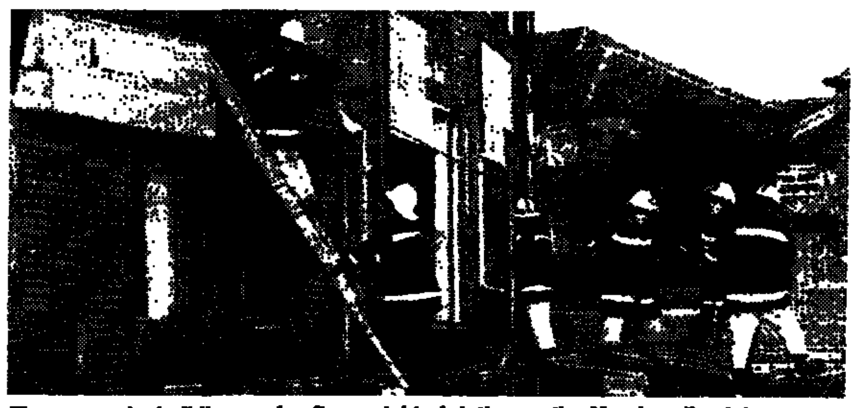
ON THE south Meadowell estate, amid boarded-up properties and graffiti, stands an occupied house set in a cottage-style garden, with roses climbing on a trellis arch and a pitched-roof bird box, painted white.

On the same estate, near a shopping parade which looks like a war zone, Brian and Joyce Grant are sunning themselves beside their manicured front lawn edged with bedding plants.

The Grants have brought up two sons on the Meadowell. Aged 21 and 24 and unemployed, the young men spend their days fishing and dog-walking. "They aren't in trouble: I've been blessed," says their mother.

Last September's riots made the Meadowell estate on the edge of North Shields internationally notorious. Recently, Mrs Grant was travelling on Tyneside's Metro as it approached the estate. "There was this teacher on the train, with his class, and he said to them: 'You are now entering Apache territory.' I was fuming. I wanted to say, we aren't all like that."

Stigma is just one of the problems facing Meadowell residents. Others include poverty, unemployment, crime and vandalism. To these could be added uncertainty: as the search for a solution to Meadowell's problems enters a new phase, the Grants have been told they are to be decanted, and their carefully tended home demolished as part of a proposed £30m Estate Action "remodelling".



Firemen make buildings safe after a night of rioting on the Meadowell estate

Like many such deprived estates, Meadowell is initiative-rich: City Challenge is the latest in a long line of brave new worlds.

The difference this time is that residents are being officially placed centre stage, and even challenged to show that their grassroots knowledge can provide more realistic, enduring improvements to their estate than officialdom has achieved.

"Of course, I don't want it to slip back again," said the inner cities minister, Mr John Redwood, during a recent visit to City Challenge winners in Tyne and Wear. "But that is in part up to the people who live there and the local community surrounding."

Meadowell residents, who have been painstakingly working on a feasibility project for a "community village" redevelopment on the site of the community centre burned down in the riots, have to come up with firm proposals by next month.

As part of the £37.5m City Challenge funding awarded to North Tyneside council in July, £8m has been allocated to the Meadowell. Projects include a child-care training centre and a community village, which would consist of self-build housing, workshops, projects like the "Bangers and Smash" motor repair scheme, and premises for the estate's successful Credit Union and bulk-buying food co-operative.

Among the residents involved, and their many public and private sector partners in City Challenge, there is a strong commitment to working together. "It's working tremendously well," says John Foster, North Tyneside council's City Challenge co-ordinator.

For the Tyne and Wear Development Corporation, responsible for regenerating riverside land alongside some of north-east England's most deprived housing areas, it is vitally important that the Meadowell and the TWDC's £280m Royal Quays dockland redevelopment, where building work has just started, do not become polarised extremes of jobless deprivation and employed affluence.

For the private sector, which has learned to shun places like the Meadowell, there is everything to gain if the estate can be made more attractive for investment, and its residents more skilled. This, too, would complement the work of the police, who have set up their own Meadowell community policing team since the riots.

North Tyneside's City Challenge programme covers the town centres of Wallsend and North Shields and the Meadowell and Howdon estates each side of the A19 trunk road corridor, where there are a number of substantial industrial employers.

The inclusion of the partly-industrialised A19 corridor, running through the middle of the Challenge area, emphasises that the reduction of unemployment is a key objective. But the Challenge bid recognises that in areas like the Meadowell, where male unemployment is over 40 per cent, other work is needed before disaffected or demoralised residents can get jobs.

As well as the £8m community village, City Challenge will bring the estate an innovative £5m childcare training centre, designed to help women gain childcare qualifications and offer them a good environment in which to leave their children while they take up training or work.

But even though there is wide acknowledgement that Meadowell's problems cannot be solved simply by spending money, the estate still needs investment beyond City Challenge's scope.

The council's £30m Estate Action programme, in which the Cheviot Housing Association is heavily involved, is intended to diversify housing tenure. The government last month gave the go-ahead for the first £8m phase of Estate Action work in the Meadowell. As part of the scheme, every domestic property on the estate, which currently has 1,776 council homes, will be upgraded by better security on doors and windows, energy insulation and external environmental improvements.

Residents involved in City Challenge have the support of many local people – but not all. The nihilism of those who, in the riots, burned down their own estate's meagre facilities and who are still wrecking property and threatening those who "grass" has yet to be vanquished.

"They should get a big shed and put them in there and make them work and stop their benefits if they don't - that would solve it," says grandmother Mrs Caroline Atkinson, who is disgusted at the decline of the estate where she has lived for 40 years.

It's the kind of approach that few respectable politicians have dared publicly to suggest – yet.

Chris Tighe

■ How two of the losers have reacted to their disappointment

'Bristol trapped by catch 22'

IT WAS July 16: the day that Hartcliffe, the run-down, largely council, estate on the southern edge of Bristol heard that for the second year running it had lost its bid for City Challenge funding.

That evening the riots erupted, a large part of the Symes Avenue shopping mall was vandalised or set on fire, and serious disturbances across the estate lasted three nights. The riots were not, emphatically not, caused by the government's refusal to give Bristol £37.5m for urban regeneration. A tragic incident – two youths joy-riding a stolen police bike which careered head-on into an unmarked police car – sparked off the troubles, and the loitering youths who joined in had been congregating at the same spots for months. By day three their numbers were swollen by outsiders wanting to get in on the action.

But the fact that most evenings dozens of youths, mainly unemployed with few qualifications or interests, have nothing better to do than to hang around Symes Avenue drinking cheap cider and waiting for something to turn up, is a grim reminder of life in Britain's urban blackspots.

More depressing still is the thought that the likes of Hartcliffe could *lose* in a competition for regeneration funding.

Hartcliffe highlights the "downside" of City Challenge in graphic form. The very community involvement which, with "winning" bids, has given a local dynamism to regeneration, in the case of failure produces real gloom and depression. It is not just the prospective beneficiaries with hopes dashed: it is the teachers, community and voluntary workers, striving to increase opportunities and often feeling isolated and embattled at the best of times, who feel deserted.

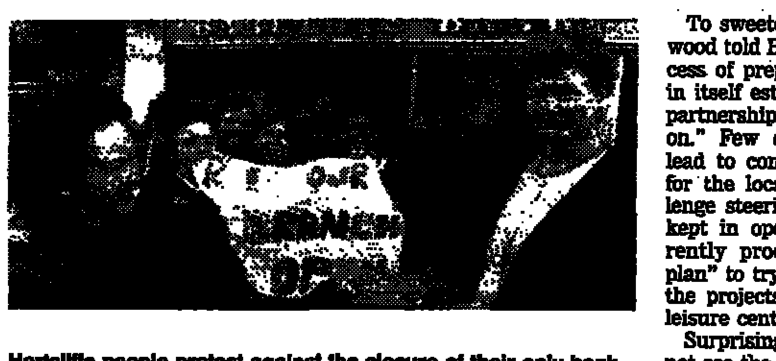
In Hartcliffe's case the impact of losing was worsened, because failure came not once but twice, because Hartcliffe was also Bristol's bid for the first, pacemaker round of City Challenge. For Bristol council it was a heavy blow: the city gets £1.6m a year in urban programme funding, and even that could be reduced sharply next year if public spending reductions cut into a budget already top-sliced by two rounds of City Challenge.

"You cannot keep blowing up then bursting a community's hopes like this – it just breeds desperate cynicism and despair," says Ms Pat Mundy, manager of Hartcliffe Wythywood Ventures (HWV), a local enterprise and training agency. Ms Mundy is also secretary of the local neighbourhood council which, she recalls, was "deeply shocked" that they had been turned down again.

"The main casualties are the young people: only two of the 100 leaving the local secondary school this year have jobs to go to: and we don't have any spare training places this year," she says. Even existing facilities have had to be cut back: HWV had a construction workshop for its British Technology Education Council engineering course, but closed it earlier in the year because of cutbacks in funding from the local training and enterprise council.

Why did Bristol lose? Bristol city council is nonplussed. The only explanation it can offer is a seven-paragraph letter from Mr John Redwood, the local government minister, saying that the Environment department had "very difficult choices" to make but had "concerns about the development of the Wills site, given its strategic role in providing jobs locally."

The Wills site is a cigarette factory on the edge of Hartcliffe/Wythywood which employed 4,000 until its closure two years ago. It is owned by the Hanson conglomerate, which has no immediate development plans for the factory, but nor as yet is it prepared to sell the site – thought to have a book value about twice its current market value – for a price attractive to would-be developers.



Hartcliffe people protest against the closure of their only bank

Mr Michael Robinson, Bristol city council's chief executive, believes the council was in a "classic catch 22". "The plight of Hartcliffe/Wythywood is largely caused by the closure of the Wills factory and our inability to persuade Hanson to do anything productive with it; yet that is given as the reason for not helping us deal with the effects of the closure." Worse still, according to Mr Robinson, Bristol was encouraged by ministers to put Hartcliffe forward a second time, even though the Wills factory problems had been cited as a reason for rejection in the first round.

To sweeten the pill, Mr Redwood told Bristol that "the process of preparing the bids has in itself established a range of partnerships that can be built on." Few of them, alas, will lead to concrete opportunities for the locals. The City Challenge steering group has been kept in operation and is currently producing an "action plan" to try and bring some of the projects – notably a new leisure centre – to fruition.

Surprisingly, Ms Mundy does not see the City Challenge failure as the worst of Hartcliffe's recent "external" shocks. She awards that prize to Barclays Bank, whose decision to close its Symes Avenue branch, in the teeth of vociferous local opposition, dealt the local trading community a blow from which it may not recover.

"Barclays said they weren't making enough – *enough* – profit", she says scornfully.

Ironically, the City Challenge project office is based in the empty bank. "People kept coming in wanting to cash cheques," she adds, with a smile.

Andrew Adonis

Coventry infers political bias

TALKS ON how to keep together the partnerships forged to support Coventry's City Challenge bid started within days of the government's notifying the city council in July that the bid had failed.

Failure left council and community leaders angry. Mr Brian Clack, the council leader, wrote to Mr Robin Squire, a junior environment minister:

"Coventry is left to pull itself up by its bootstraps. It's done this before in a climate of hostility, now equalled by your government's attitude towards this city."

The bid had concentrated on the Foleshill and Hillfields districts on the northern side of the city centre, where male unemployment is over 30 per cent and the industrial base has steadily eroded. Housing conditions are the worst in Coventry, although most is in private hands. Over 40 per cent of the population is black, with Afro-Caribbeans concentrated in Hillfields and Asians in Foleshill.

In addition to environmental and social improvements, the City Challenge plan explained how inward investment could be drawn in by the creation of new premises and rehabilitation of old, while training programmes would be mounted so that residents would be able to obtain the new jobs created. Four flagship developments would, as the City Challenge document put it, "spearhead the regeneration strategy".

While the government liked the linking of inward investment to job opportunities, it felt, Mr Squire told the council, that "some other aspects fell short of the very high standards of the winning bids". In particular, his letter went on, "there were still uncertainties over one of the flagship projects; and the management and delivery system needed further work."

The city council dismissed those criticisms as "spurious", and claimed that the government was "seeking to justify what is clearly a decision to favour other authorities on party political grounds to Coventry's detriment". This was a reference to Walsall's success in City Challenge – Walsall had turned Conservative at the last local government elections.

Coventry council members fear that the funding options for urban regeneration are becoming more limited. Community leaders fear that the impetus towards a collective approach to, for example, improvement of poor housing areas may peter out.

The first financial concern is the continued squeeze on local authority spending. For fiscal 1992-93, the city council cut £6.9m from its budget, to avoid poll-tax capping. It expects to cut probably a further £3m from the 1993-94 budget. Its capital spending is cash-limited by government restraint measures.

During the current year, Coventry is receiving £4.65m from the government's urban programme. But next year it expects less, though it is not certain how much less. There are two points here. First: the overall size of the urban programme will not increase. Second: because the funds allotted to City Challenge come out of the urban programme budget, the more that is spent on City Challenge, the less there is for the authorities whose bids fail.

The city council is also troubled by the fact that the task-force which has been operating in Foleshill and Hillfields is being withdrawn, and with it the funds which it has brought in: £6.4m since 1987. This money has levered in a further £6.7m from the private sector in a variety of schemes, ranging from training to the encouragement of new businesses.

Yet Coventry is not without hope of government funding from outside the City Challenge scheme. At least two of the flagship projects would, in any case, have required City Grant and this may still be forthcoming.

Paul Cheeseright

The urban village: John Willman explores a princely concept

Invoking the human factor

"I HAVE for many years been concerned about the harmful effect which a great deal of urban redevelopment has on the human spirit," wrote the Prince of Wales in his introduction to the recently published report from the Urban Villages Group.

The Prince was endorsing the group's advocacy of a new form of development, which would enhance the quality and vitality of urban life by creating living towns and cities.

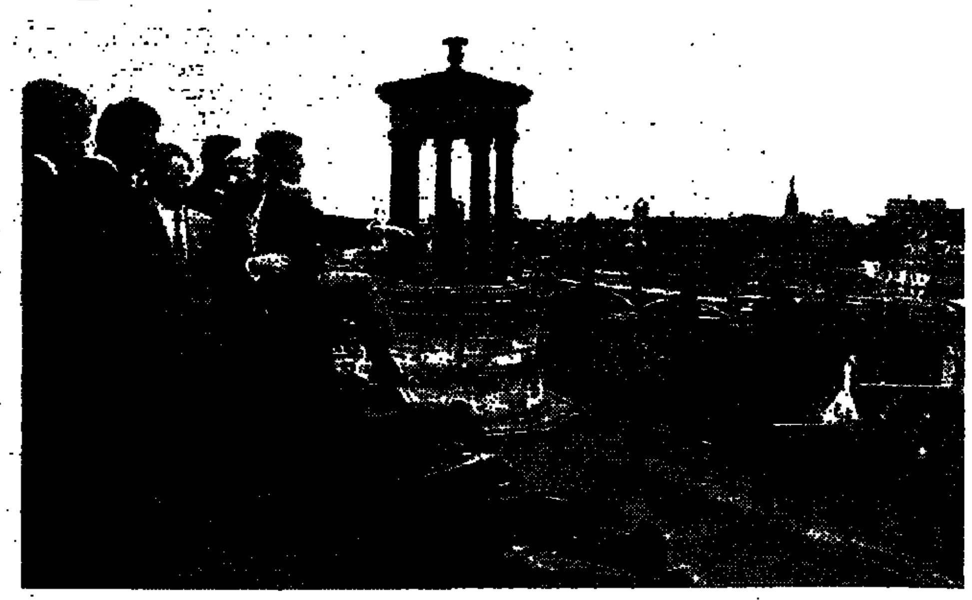
But publication of the report* has rekindled the debate over the nature of much of the UK's inner-city regeneration, and stimulated new interest in the urban-villages concept of small, mixed-use redevelopment.

Certainly, concern over the nature of the "one-dimensional, monocultural cities", created in the period of post-war reconstruction, is not confined to the Prince. His view that such development had created "soulless inhuman environments", partly responsible for "the horrendous social problems which have beset inner cities", is widely shared.

But it remains to be seen whether there will be equally widespread consensus behind the Prince's alternative, sketched out in his 1989 book, *A vision of Britain*:

"I am hoping that we can encourage the development of 'urban villages' in order to reintroduce human scale intimacy and a vibrant street life. These factors can help to restore to people their sense of belonging and pride in their own surroundings."

Both regenerated areas and new developments should, wherever possible, include the basic ingredients of community life: places of employment, entertainment and public assembly, as well as housing. Areas such as London's Clerkenwell and Edinburgh New Town were identified by the Prince as embodying such characteristics, with Montparnasse in Paris and Charleston in the US as international exemplars.



The Prince of Wales with members of the Urban Villages Group, on a visit to Edinburgh

Eguisheim, in Alsace, demonstrates aspects of the urban village concept, says the group's report

The Prince's challenge was taken up by a group of developers, builders, planners and architects who formed the Urban Villages Group under the aegis of Business in the Community. Chaired by Trevor Osborne, chairman of Speyhawk, it included such luminaries as David Goldstone of Regalian Properties, Martin Laing of builders John Laing, Tim Melville-Ross of Nationwide Building Society and Bob Williams of Grand Metropolitan Estates. Leon Krier, the Luxembourg architect and masterplanner behind many European public development projects, was a particularly influential member of the group.

They spent two years visiting the urban areas commended by the Prince, and also some of the development blackspots. The aim was to refine the elements which created community spirit, pride of place and a sense of belonging, so that they could be applied more widely.

At the heart of the urban-village project is the concept of "mixity", an antidote to single-use development which divides towns and cities into large areas devoted solely to industry, commerce or housing. The ideal urban village creates a "whole district", with 3,000 to 5,000 inhabitants; ideally it should include places to work, live and play over no more than 100 acres (40 hectares) – all, therefore, within easy walking distance.

Mothers' Square, Hackney, is seen as a good example of mixed housing development

"Mixity needs to be accepted in planning terminology as a form of sustainable development," says Mr Osborne. He is urging the environment secretary to issue a planning guidance note, which would encourage local planning authorities to reflect the concept in their local plans.

The group advocates a new planning category of Structured Planned Urban Development (or Spud for short), which would recognise the mixed-use approach and offer developers protection against piecemeal tinkering with the area. However, many planners are less sure about the practicality of such mixed-use development, where the needs of commerce and industry may conflict with the leisure and residential uses located cheek by jowl.

David Hall, director of the Town and Country Planning Association, has reservations about how much of the housing that will be needed over the next 20 years can be provided through urban villages. "It simply won't be possible to provide the 2.8m homes needed between now and 2011 in urban areas," he says.

Mr Hall also worries that too much is being expected of the built environment: "There are other causes than the environment for riots on bleak post-war housing estates in Newcastle and Coventry, such as unemployment among young people or the lack of social support. Creating a good environment simply won't solve such problems."

Whatever the reservations, there is certainly support for a more humane approach to redevelopment in the European Commission, whose green paper *The Urban Environment* reflects much of the thinking of the Urban Villages report. The Commission has also been supportive financially, contributing £35,000 towards the cost of printing the group's glossy and lavishly illustrated report.

In a glowing encomium, Mr Carlo Ripa di Meana, the environment commissioner when the report was launched, described it as "an important contribution to the ongoing debate on how our cities can be made liveable and environmentally friendly". Mr di Meana went on to commend

The Prince has put his ideas into practice, with a new settlement on Duchy of Cornwall land

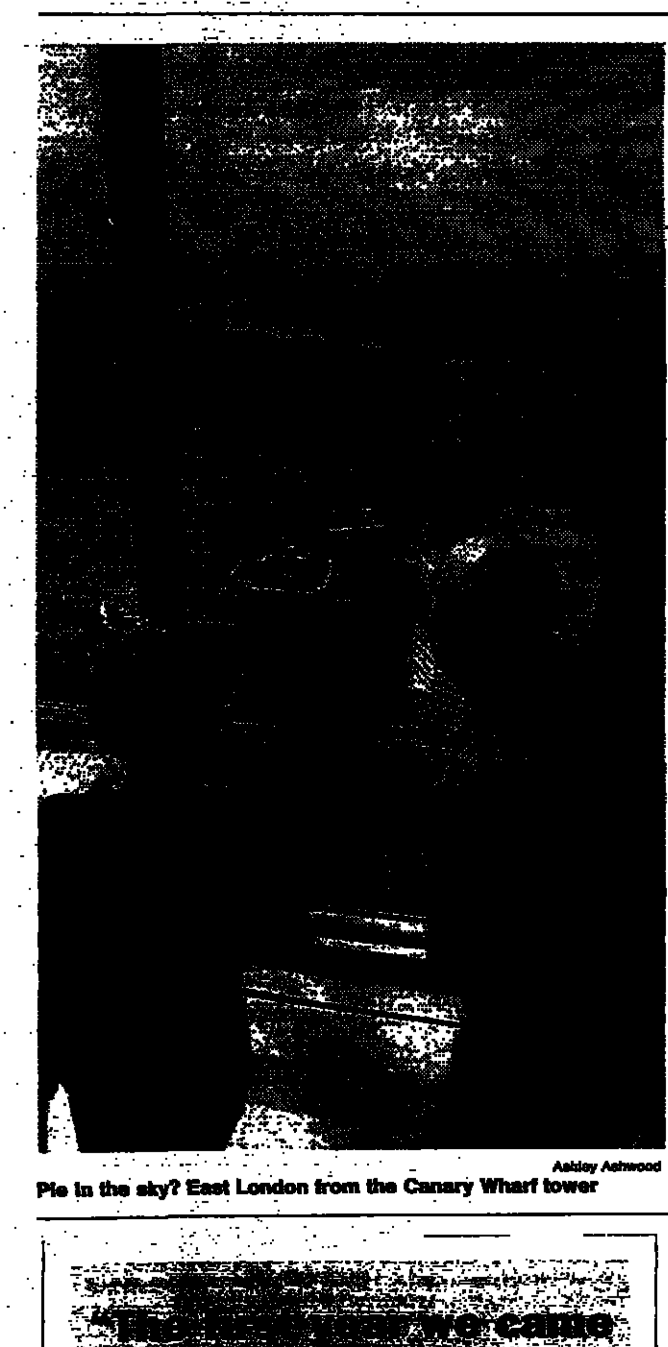
the "special group of people who have come together to say it, [particularly] the construction and development industries".

That throws the ball neatly back into the court of those with the power to change the nature of much modern redevelopment. The Prince of Wales himself has already attempted to put his ideas into practice, with Poundbury, a new settlement on Duchy of Cornwall land at Dorchester, in Dorset. The experience has been salutary, he says, in demonstrating the "complexity and stubbornness of the issues".

The Urban Villages Group has also tried to take the approach into the development stage, with the creation of the Urban Villages Company. A commercial joint venture between several builders and developers, it is investigating four sites in England and Wales, to select one for the location of an urban village.

The group's report also has a role to play in disseminating ideas through conferences and training courses for architects and planners. Whether it can succeed in persuading builders and developers to abandon their predilection for the larger-scale projects, which are their bread and butter, remains to be seen.

**Urban Villages. The Urban Villages Group, 5 Cleveland Place, London SW1Y 6JJ. £19.95 (plus £2.50 p&p).*



Ashley Ashwood

Pie in the sky? East London from the Canary Wharf tower

Canary Wharf's failure casts a shadow over a bold planning vision

Conflicting voices in the corridor

THERE IS no more powerful reminder of the hazards and challenges of urban regeneration than Canary Wharf, the insolvent office project that dominates the east London skyline.

The failure of the project, which went into receivership in May, reflects its over-ambitious scale and its perceived isolation from the heart of London. At the same time, the tower's spectacular views over east London underline the daunting scale of the regeneration task that remains.

This eastern fringe of London encompasses a large expanse of industrial dereliction and under-developed land, albeit interspersed by historic towns and areas of open countryside. It has been badly affected by the decline of manufacturing and port-related industries over the last 20 years.

The depressed image of the area, coupled with a long-standing neglect of its infrastructure, has held back development. With the exception of the Docklands, an area from Tower Bridge to the Royal Docks, which became the focus of the government's urban renewal strategy in the 1980s, the area has been largely untouched by successive property booms.

Its potential as a long-term growth opportunity was identified in 1985, by the strategic planning body for the south-east (Serplan). It called the area, which stretched from Tower Bridge to Southend in Essex and Sheerness in Kent, the East Thames Corridor. It contains an estimated 10,000 acres of uncontaminated land that can be developed without encroaching on the Green Belt.

The political will to develop the area gathered strength last year, partly as a result of the shortage of housing land to the west of London.

Attention was focused on the area a little under a year ago when the government announced that the fast rail link from the Channel Tunnel to London would go through east London, via Stratford. In the same week, Mr Michael

Vanessa Houlder appraises the idea of an east Thames development

Heseltine, then secretary of state for the environment, announced that there would be a study of development prospects in the East Thames Corridor.

"Large as the Docklands project is, it now needs to be seen as just one part of a much bigger strategy that focuses on Stratford and seeks to develop, on that basis, a huge linear city on both sides of the Thames," said Professor Peter Hall, an urban geographer who acted as his adviser.

The potential for this kind of development is being assessed by planning consultants. Llewelyn-Davies Planning will submit a report on the area's development potential to the secretary of state for the environment at the end of this month.

The scope for development is constrained by the nature of the sites. The main development sites are the Royal Docks, Barking Reach, Rainham Marshes, Stratford Railway lands, Greenwich Peninsula and Beckton Gasworks at Gallions Reach. The last two belong to British Gas.

The barriers to development are awesome. The problems include the area's poor image, the recession, constraints on public spending, developers' disillusionment with urban regeneration projects and the likelihood that the area's land will be include on a contaminated-land register.

There is also a glut of existing buildings. A study by the University of East London for Glenny, chartered surveyor, found that: "With the possible exception of high-quality warehousing and distribution, there are substantial surpluses of most types of commercial space and housing, which will have to be reduced, perhaps by conversion to lower-value uses, before confidence can return and new projects realised."

But despite these formidable obstacles, the case for developing the East Thames Corridor has some merits. For one thing, it offers the only substantial expanse of developable land in the overcrowded south-east. For another, its position between London and continental Europe will become increasingly important with closer European integration. Already, it is a funnel for around half the south-east's trade with the EC.

Another factor working in favour of the region's development is the improving quality of its infrastructure.

"East London is in the middle of a historic phase in its development: the installation, over a 20-30 year period of new transport infrastructure such as it has not seen in a century," said the study by the University of East London.

Improvements that have been put, or are being put, into place include the M25 motorway, the Dartford Bridge crossing, the Lower Lea crossing, the North Circular road, the Docklands Light Railway, the Stansted passenger terminal and the City airport. In addition, the A13/M25 links, the M11 extension, the East London river crossing and Crossrail are due to be installed in the second half of the decade.

But even with the large sums being spent on the region's infrastructure, further investment will have a critical impact on the viability of development. According to the University of East London: "All [the sites in the East Thames Corridor] need road and rail improvements to realise their potential." The only exceptions are the Royal Docks and Chafford Hundred, which are already well served with infrastructure.

The success of the London docklands will largely depend on whether the government continues with the Jubilee Line extension, jeopardised by the receivership of Canary Wharf, which had been due to contribute £400m to its costs.

In addition, much hangs on the location of a passenger station for the Channel Tunnel fast rail link. In the view of the University of London report: "A Stratford interchange is seen as vital to the future prosperity of docklands."

The importance of putting the right transport provisions in place are palpably demonstrated by the half-deserted office developments of the Isle of Dogs. Its failure to match the area's infrastructure with the pace of new development did extensive damage to its reputation. So, too, did the hands-off approach to planning, which resulted in the development of an excessive number of office blocks in competition with surrounding boroughs.

Now that the 1980s property boom is a distant memory, investors are unlikely to make the same mistakes twice. Unless the right infrastructure and planning mechanisms are in place, the East Thames Corridor will get no further than the drawing board.

URBAN DEVELOPMENT 6

In Scotland, partnership is transforming a deprived area of Paisley

The address is an asset now

IT USED to be said in the west of Scotland that anyone who put an address in Ferguslie Park on their job application form would instantly have it rejected.

This housing estate in Paisley, 10 miles west of Glasgow, had until very recently a reputation for being among the worst in Scotland. The unemployment rate among its 6,000 population was around 40 per cent; many of the people lived in poverty and squalor; and there were exceptionally high levels of violence, housebreaking and assaults.

Two years ago, the most powerful impression a visitor to Ferguslie Park came away with was of the wretched housing: even the best of the dark-grey harled houses and flats looked damp and run-down, while many were derelict and boarded up. Some of the open spaces were literally knee-deep in refuse.

The few shops were shuttered and daubed with graffiti. The wide roadways with ample verges created an impression of emptiness and neglect, which was reflected in the sullen faces of the inhabitants.

Suddenly, Ferguslie Park looks different. Hundreds of new houses built of yellow brick have sprung up in one part of the estate. Some are owned by housing associations and housing co-operatives; others have been bought by owner occupiers from private developers, an astonishing development for this area. The passers-by in Ferguslie Park are often friendly and helpful.

These physical changes are the most obvious fruits of a concerted attack on the evils of Ferguslie Park. In 1988, the estate was chosen as one of four very deprived urban areas for a new approach to urban renewal by the Scottish Office entitled "New Life for Urban Scotland".

James Buxton has seen the scowl leave the face of Ferguslie Park

This programme, whose other projects are the Castlemilk estate in Glasgow, the Wester Hailes area of Edinburgh and the Whitfield estate in Dundee, is aimed at bringing new leadership to urban renewal in Scotland, which was previously led by the Scottish Development Agency.

Its key features are: partnership between different agencies, an emphasis on involving local people and the engagement as far as possible of the private sector.

Ferguslie Park is the smallest of the four projects. Started in the 1920s, it suffered almost at once from the decline of the Paisley spinning industry. In the 1970s and early 1980s, the ill-fated Linwood car plant lived and died on its doorstep.

The Ferguslie Park Partnership, headed by Mr David Dickson, a Scottish Office official, is implementing a multi-faceted strategy, of which the improvement of housing and the environment is only one part. It includes policies aimed at getting the people of the estate into jobs, improving education, making the area safer from crime and tackling ill health and poverty.

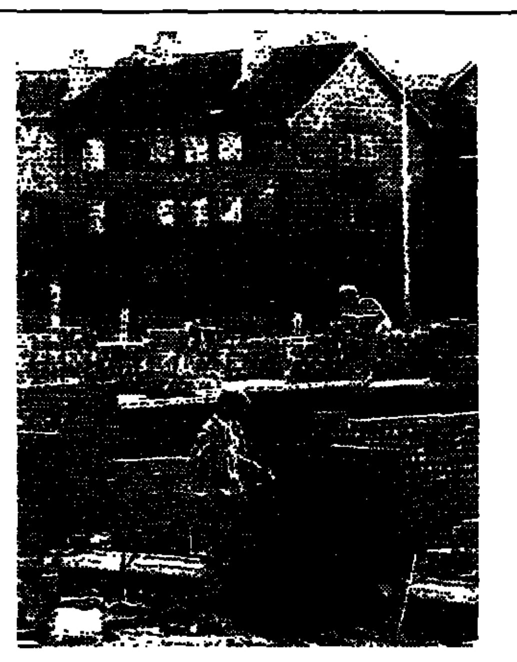
About 45 people now work in the partnership offices in the centre of the estate. It is a one-stop shop in which representatives of government and local agencies offer their services, ranging from Scottish Homes (the government's housing agency in Scotland, which funds housing associations) to the Department of Employment which operates a job centre.

Seven of the 20 places on the board of the partnership are held by local representatives. The emphasis, explains Mr Wylie Cunningham, of the partnership, is on "avoiding a top-down approach to urban regeneration, and ensuring that the people of the community are consulted and involved all along."

In the past three years, about £40m has been spent. The biggest single expenditure has been on the Glencoats area, where between £30m and £35m has been spent, of which £12.5m came from the private sector, much of it by a joint venture of Miller Homes and Bellway in building private houses.

About 1,000 of the 2,500 houses or flats on the estate have been, or are being, renovated, with the bulk of the work taking place in the past year. Development will now move out to other areas in the 10-year project.

But away from Glencoats it becomes clear how much more there is to do. A grim shopping parade at Top End is largely unchanged, and one sees a burnt-out car and supermarket trolleys lying in the road. But much of the refuse has gone.



Pictures by Tony Andrews

Suddenly Ferguslie Park looks very different, as the benefits of the 'New Life for Urban Scotland' approach become apparent

Although the building work is the most obvious evidence of the project, much of the work of the partnership has been on the "software" side of training and persuading employers, including the building contractors working on the site, to employ people from the estate.

The partnership claims credit for finding full-time or temporary jobs for almost 1,000 people in the past three years, although it is reluctant to put forward a headline figure to compare with the original 40 per cent unemployment, because of the difficulties of definition.

A number of projects have been launched with local schools to improve education and, in the words of Mr Cunningham, to "convince the youngsters of the estate that being unemployed is not the norm and that there is work out there."

A new road has been pushed through to the Phoenix buiness park, which has been built on the ruins of Linwood; and the estate benefits from being close to Glasgow airport, expanding as international flights to North America develop.

As Ferguslie Park's image begins to improve, its location increasingly becomes an asset. The partnership denies that effecting a turnaround in the estate's fortunes was in any way easy, but it does acknowledge that the estate's small size has been an advantage.

The burden of criticism recently voiced about the New Life for Urban Scotland projects, by the Royal Institution of Chartered Surveyors in Scotland, is that the schemes are excellent as far as they go but that they only involve 100,000 people and that there ought to be be more of them, under a comprehensive funding and delivery mechanism. The Ferguslie Park experience suggests that success is within reach there, and that the experience should be repeated.

In Wales, the Swansea Valley typifies the way spoilt land is being reclaimed

It's management as much as money

FORTY YEARS ago, the Lower Swansea Valley was the scene of probably the worst industrial dereliction in Britain, the result of two and a half centuries' despoliation that began with copper smelting and ended with steel production.

Today the area may not be as green as the nearby Brecon Beacons, but a seal gambols in the river Tawe that runs through the valley, a sports stadium attracts large numbers of young people, one hotel has arrived and another is coming, and some 500 companies in the enterprise zone have brought more than 7,000 jobs.

The transformation of this run-down sector of Wales's second city is just one part of a larger scene, in which the problem of land reclamation in Wales will soon have been solved, and the problem of urban regeneration will be well on the way to being resolved.

It is a transformation in which the Welsh Development Agency has become one of Europe's leading urban renewal agencies.

"When the agency was set up in 1976," says Mr David Farnsworth, executive director in charge of development projects, "30,000 acres of derelict land needed attention. So far, 22,000 have been cleared.

The 95-acre Swansea Maritime Quarter development, which was initiated by the city council, was among the British Urban Regeneration Association's 1992 Best Practice award winners

"By 1996 we should have cleared all the derelict land in Wales. The old steelworks in Ebbw Vale is now the site for this year's National Garden Festival, and after the festival closes its doors in October an urban village will be part of the further development of the site.

"In Merthyr, we have the largest coal recovery and land reclamation project being undertaken in Europe. On Deeside, we helped clear the site when the steelworks closed, a project that led to several thousand jobs being created."

Land reclamation, however, is only one aspect of the agency's work. There is also the question of urban regeneration. For several years, Wales has had an urban programme, and it is possible to see the setting up of the English regeneration agency as having been stimulated by its success.

However, there are differences. In England, City Challenge is about selectivity and targeting projects, whereas the Welsh programme – the Urban Joint Venture Agreement – involves the agency joining forces with local authorities, training and enterprise councils, the tourist board and others to produce a programme.

"Integration of urban policy with land reclamation and assistance to business is part of the whole plan," Mr Farnsworth says. Urban projects are chosen not just on the basis of the quality of local proposals, but according to the potential for economic growth for the region as a whole.

"We endeavour to ensure that 'hands on' help from central sources to local projects is designed not only to make public funds more cost effective, but also to give Wales an extra dimension in the market-place of the 1990s."

Some 20 towns, including Caernarfon, Holyhead, Merthyr Tydfil, Maesteg and Tredegar, have had help or have schemes under consideration. "There is a real partnership about these schemes," Mr Farnsworth says, "this is the key to our success."

The old steelworks in Ebbw Vale has been the site for this year's National Garden Festival

The Welsh approach is that town regeneration is as much to do with management as with money. Lack of co-operation among the various bodies has acted in the past as a brake on achieving desirable ends. The Welsh Development Agency has seen a route through this lack of co-operation – a route that the English agency may yet want to copy.

Anthony Moreton